Cascades Inc. Annual Report 2001

Putting our values to work

Cascades

Sales per Business Sector*

* Proforma information including business acquisitions made as at February 28, 2002.

Our mission To be the leader in the manufacture and sale of packaging products, value-added fine papers, and tissue papers made primarily from recycled fibre.

As the leading Canadian manufacturer of packaging products, second largest tissue paper producer in Canada and fifth largest in North America, and Canadian leader in the manufacture and sale of fine papers, Cascades employs more than 14,000 people in some 160 operating units in Canada, the United States, Mexico, France, England, Germany and Sweden. The Company also has a sales force that spans the globe, making Cascades' products available in nearly every corner of the world. Extensive recycling experience, leading-edge de-inking technology and sustained research and development are all distinctive strengths that enable Cascades to offer its customers innovative products with superior added value.

	2001	2000	Variation
Financial Results (for the years ended December 31) (in millions of $, except per share amounts and ratios)			
Net sales	3,023	2,866	5%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	380	339	12%
Operating income	248	214	16%
Net earnings	120	75	60%
per common share	$ 1.47	$ 1.12	31%
Cash flow from operations	249	214	16%
Purchase of property, plant & equipment	122	148	(18)%
Dividend per common share	$ 0.12	$ 0.11	9%
Financial Position (as at December 31)			
Total assets	2,754	2,637	4%
Total long-term debt	1,103	1,096	1%
Other liabilities	208	216	(4)%
Shareholders' equity	891	776	15%
per common share	$11.01	$ 9.60	15%
Stock Information (CAS: TSE)			
Trading volume (in millions)	31.6	13.9	127%
High	$10.44	$10.50	
Low	$ 6.41	$ 6.05	
Stock price at closing	$10.41	$ 6.85	52%
Number of shares issued and outstanding (in millions)	81.0	80.9	
Market capitalization	843	554	52%
Financial Ratios (for the years ended December 31)			
Return on equity	14.4%	10.5%	
EBITDA/net sales	12.6%	11.8%	
EBITDA/financial expenses	4.3x	3.7x	
Net funded debt/EBITDA	3.1x	3.5x	
Net sales/total capitalization	1.3x	1.3x	
Net funded debt/total capitalization	51%	53%	
Shipments Summary (main products: in thousands of metric tons)			
Packaging products	1,391	1,361	2%
Fine papers	269	276	(2)%
Tissue papers	224	185	21%

Here's how:

This is our raw material.

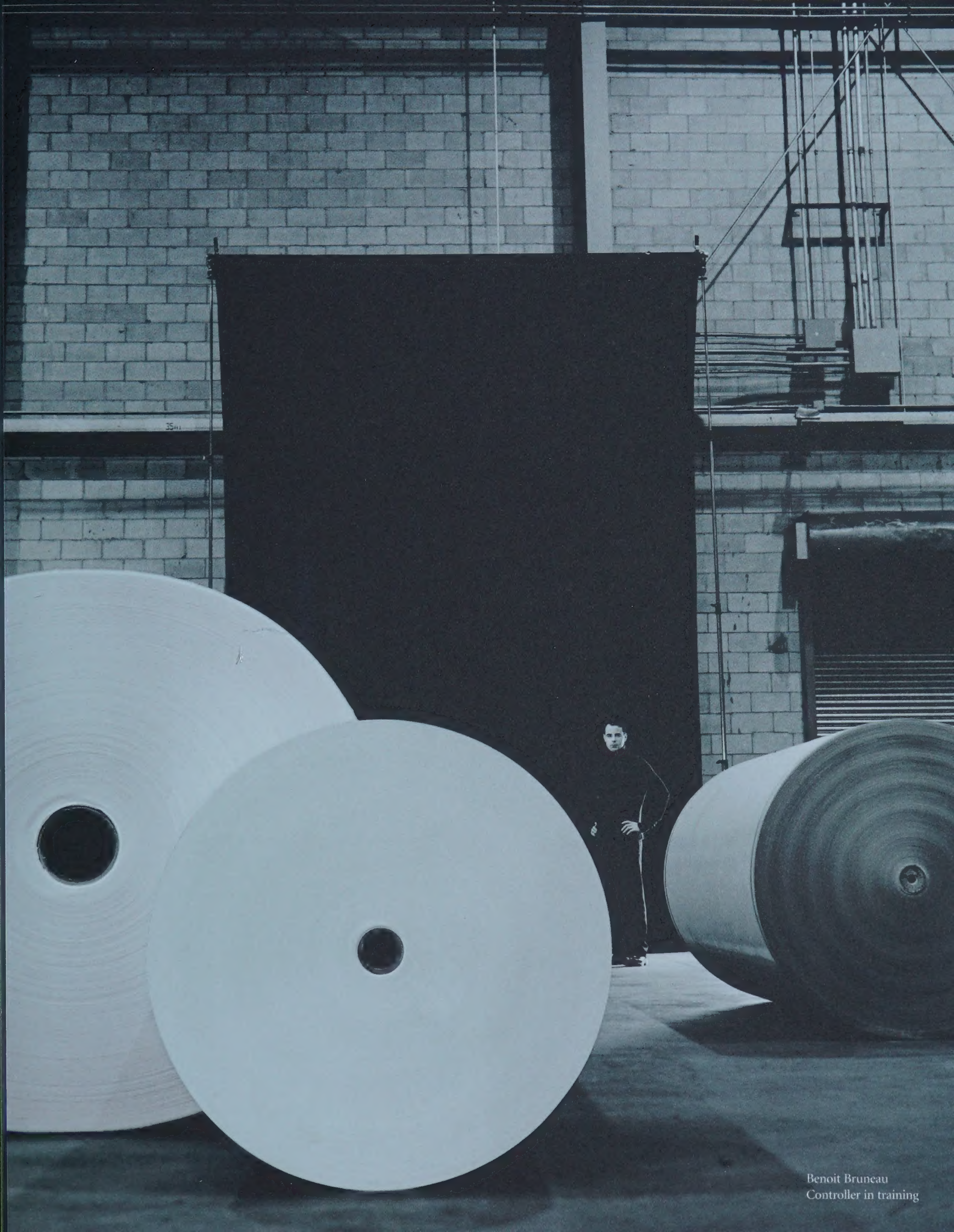
Two thirds of the raw material used by the various operating sectors of Cascades is fibre that has been recycled primarily in our own recycling and de-inking facilities. Since 1964, we have been honing our expertise in the area of collecting and reclaiming used containers, packaging and printed material. In every sector—fine papers, tissue papers, or packaging products—every one of our products provides tangible evidence that Cascades is serious about the environment. So when consumers buy our products, they know they are also buying into environmental protection.

Two and a half million tons of recycled fibre equals 30 million trees.

While our competitors are dependent on increasingly scarce and costly forest products, our status as a recovery and recycling pioneer and leader in Canada gives us an undeniable competitive advantage and makes us less vulnerable to the business cycles typical of our industry. Each year, we can give new life to 2.5 million tons of printed paper and cardboard. And our forests are the better for it.

We are one.

By privatizing Paperboard Industries International Inc., Rolland Inc. and Perkins Papers Ltd. in December 2000, we streamlined the Company's corporate structure and passed along one and the same vision to all our wholly-owned subsidiaries: the Cascades vision. This year, we will go even further: now all our subsidiaries and their units will display the Cascades logo. This will consolidate our corporate identity and present to the world a strong, clear, and unified image.



Benoit Bruneau
Controller in training

Our strength: a steadfast, committed team.

With a decentralized management practice, Cascades puts great stock in employee accountability and encourages all personnel to participate in improving the efficiency and productivity of their respective operating units. This management philosophy, distinctive to Cascades, is put into practice daily in all our business sectors. This approach encourages employees to go the extra mile, fosters team spirit and creates a strong pool of future leaders.

André Belzile, Jacques Mallette, Robert F. Hall, Marc-André Dépin, Suzanne Blanchet, Martin P. Pelletier and Mario Plourde

At the plant of Norampac Inc., Montréal Division

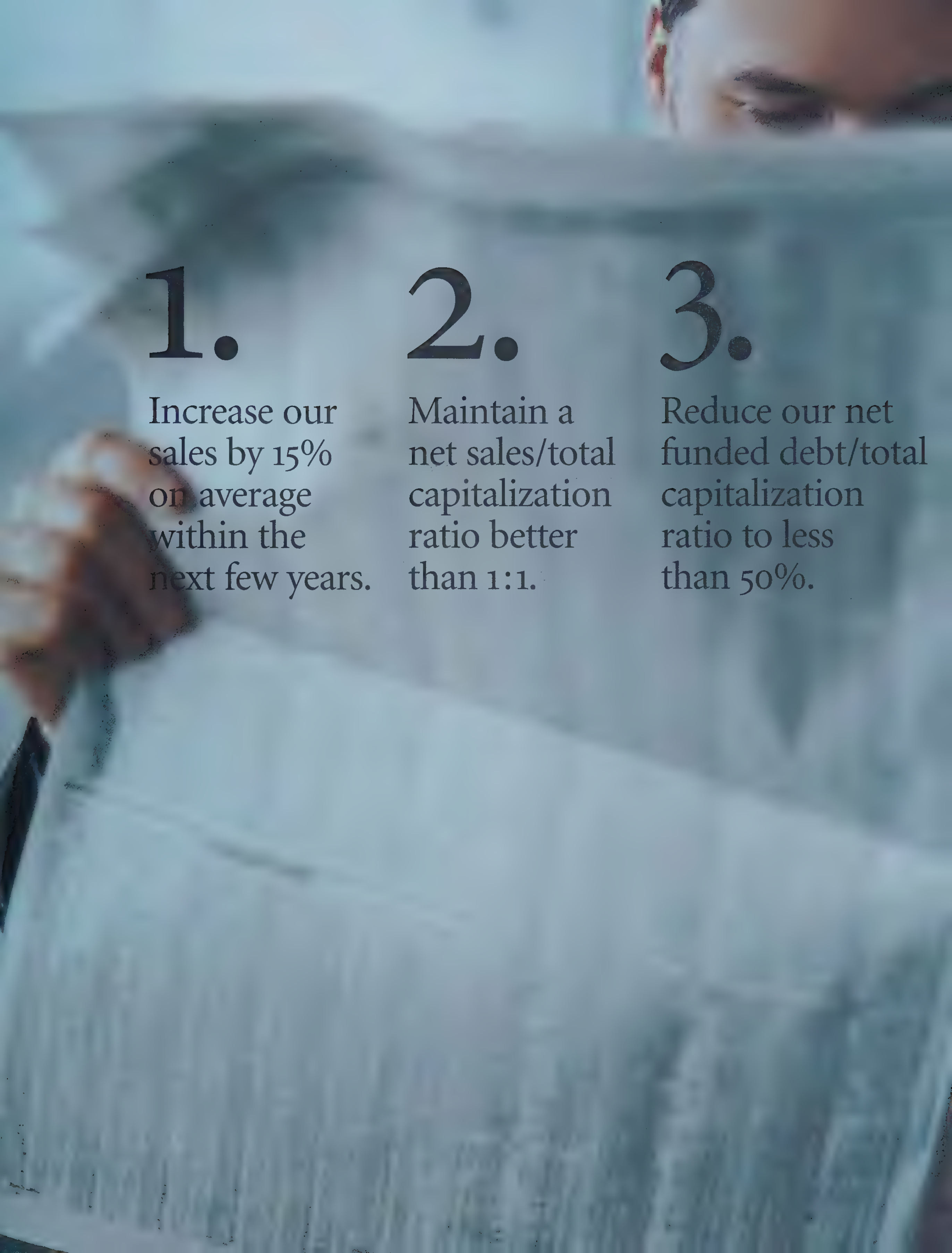
Our objectives are clear.

At Cascades, customer satisfaction comes first. The Company's growth and future success depends on it. Consequently, innovation, product quality and outstanding service are our core priorities.

In order to double the size of Cascades by 2006 and maintain our leadership position in each business sector, we plan to increase sales by 15% per year on average. With this objective in mind, we will continue to seek acquisitions or partnership opportunities with the potential for high performance.

We also intend to optimize our assets and maximize the profitability of each business unit to keep our ratio of net sales to total capitalization above 1:1.

Reducing our net funded debt to total capitalization ratio to less than 50% in the short term also remains a primary goal.



1\. Increase our sales by 15% on average within the next few years.

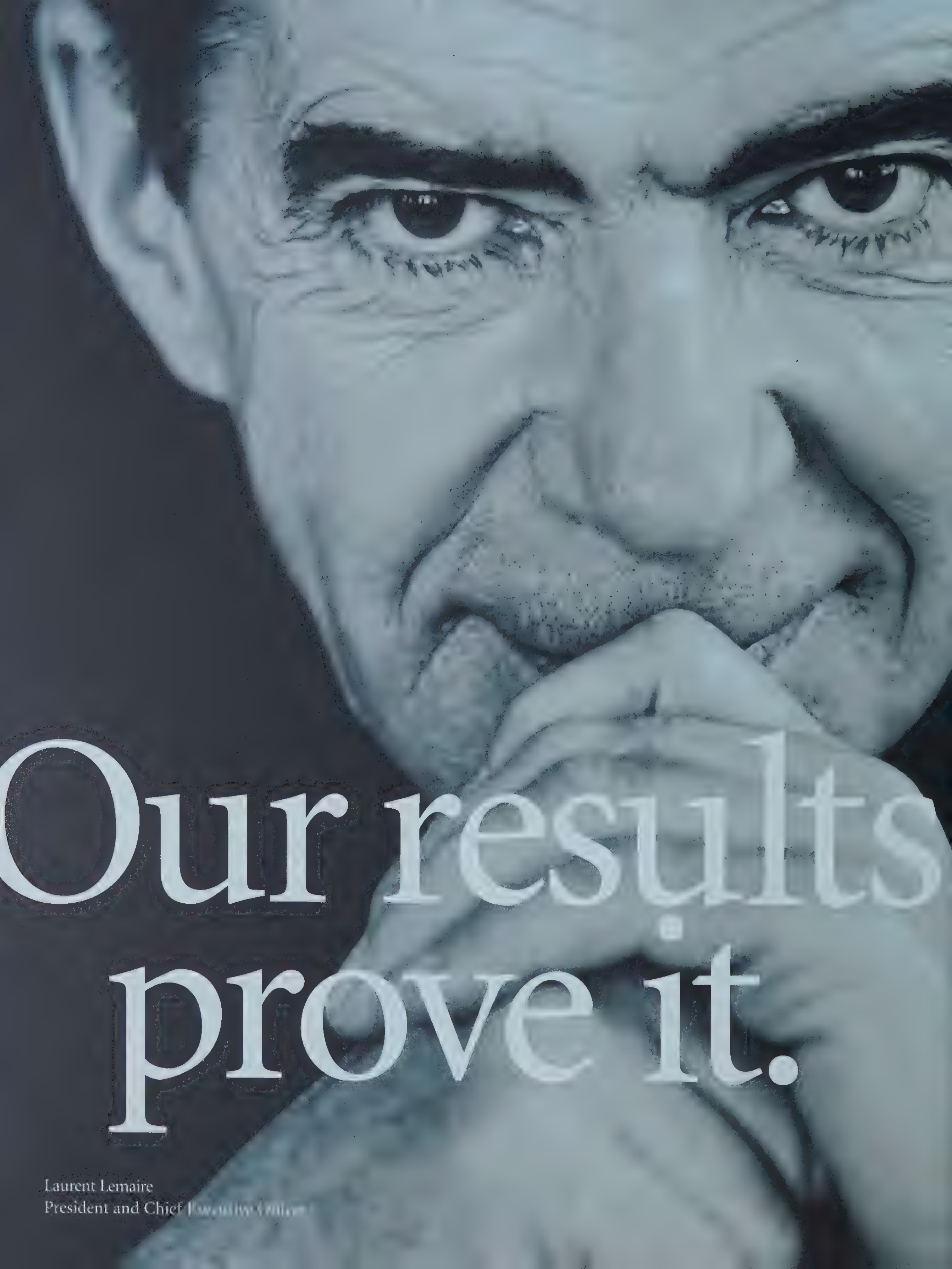
2\. Maintain a net sales/total capitalization ratio better than 1:1.

3\. Reduce our net funded debt/total capitalization ratio to less than 50%.

We are action oriented.

Our objectives reflect our ambitions, and we are determined to achieve them. Cascades' annual compounded growth rate during the last ten years for net sales and earnings before interest, taxes, depreciation and amortization (EBITDA) is more than 14%. As for our ratio of net sales to total capitalization, it is also well above industry average. We are among the first North American pulp and paper companies in terms of shareholders' equity return with a yield of 14% in 2001.

Bernard Lemaire
Chairman of the Board



Laurent Lemaire
President and Chief Executive Officer

Our Best Performance Ever

With net earnings of $120 million, 60% higher than last year's net earnings of $75 million, and with net sales up 5.5% to more than $3 billion, Cascades' financial performance for fiscal 2001 has reached new heights. For the fiscal year ended December 31, 2001, we posted per-share net earnings of $1.47, compared to $1.12 per share for the previous year, with a return on shareholders' equity of 14%.

Naturally, we are very proud of this performance, coming as it did during an economic slowdown; it reflects the extent of the work done to increase our operating productivity and reduce production costs. It also reflects the effectiveness of our management philosophy, especially with regard to corporate acquisitions and turnarounds.

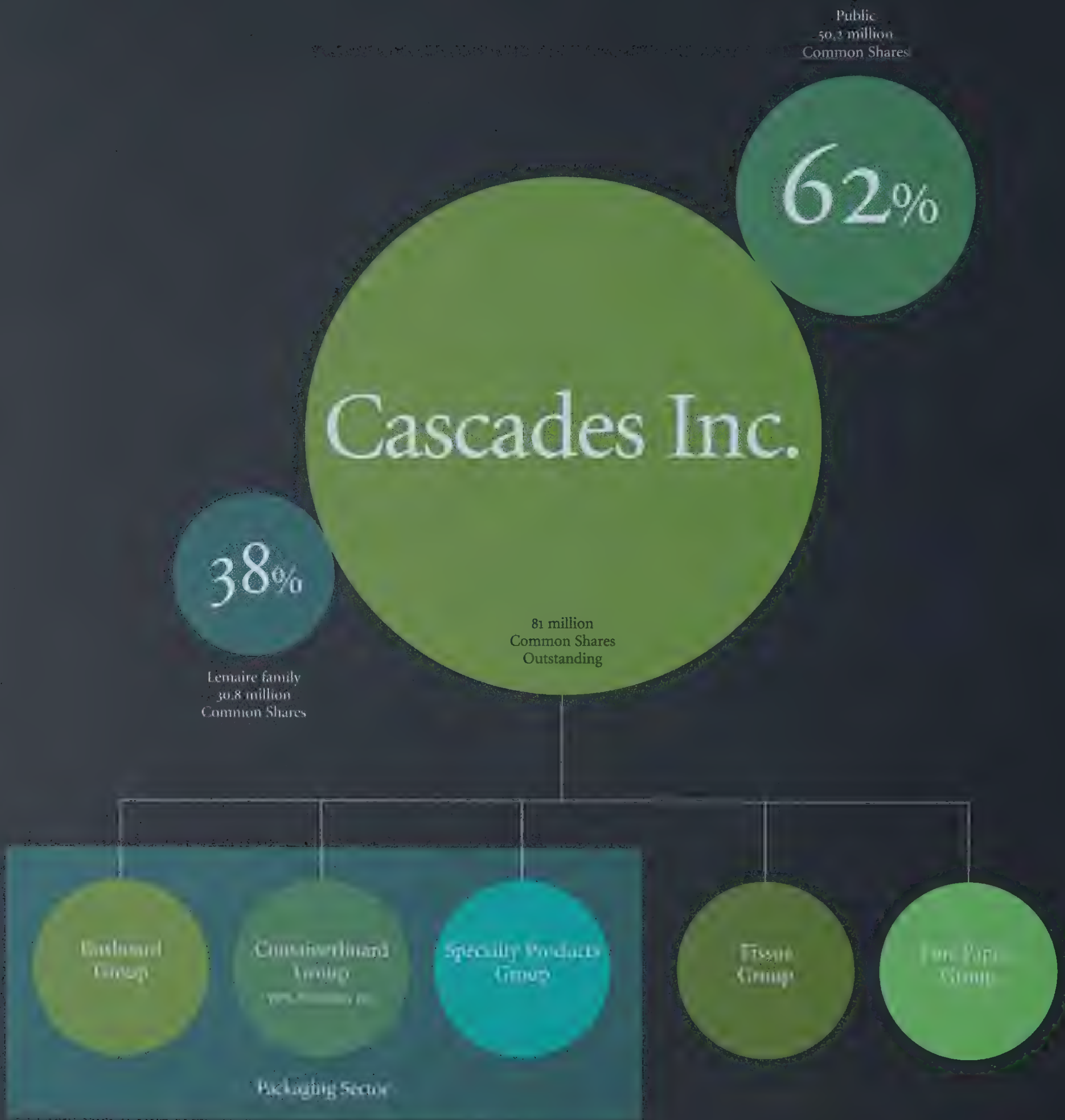
The shareholders who followed us through the financial restructuring of December 2000 had faith in us, and our performance proves that their faith was well placed. Cascades' stock on December 31, 2001, one year after the restructuring, was worth $10.41 and rose to $13.90 in February 2002. The value of Cascades' shares increased by 52% in 2001, while the Paper and Forest Products group of the Toronto Stock Exchange (TSE 300) rose only 2.5% and the Standard & Poors group declined by 0.1%. This performance moved us to the very top of the entire North American forest products industry.

Therefore, fiscal 2001 was a remarkable year for Cascades—a year during which we were able to build on our assets and strengthen our organization. As promised, we have simplified our corporate structure. We have also strengthened our management teams, renewed the profitability of our European boxboard mills and made our Tissue group one of Cascades' best performing sectors.

When we compare Cascades to other Canadian pulp and paper producers, two things stand out: our expertise in three complementary areas of specialization and the significance of recycled fibre as a raw material in our production. Indeed, the fact that we use recycled materials for more than two thirds of our fibre needs gives us a dual advantage: it shelters us from large fluctuations in the price of virgin pulp and it makes it possible for our product prices to follow essentially the same curve as the cost of our raw materials. This characteristic helps us stabilize our gross margins through all economic cycles.

Two other characteristics also provide substantial benefits: we are diversified and we can direct an increasing proportion of our production towards value-added products. Thanks to our specialization in recovery and recycling, we have developed a unique and proven expertise which allows us to bring diversified, innovative and profitable products to the market and helps us to quickly identify what measures to take in the face of problems or challenges.

Corporate Structure



3.0

billion dollars
in net sales
in 2001

But there is another factor—one that we believe is even more important—that accounts for the outstanding success of Cascades: the human factor. Of course most companies will say, with good reason, that they value their employees. But few of them devote close to 2.5% of their payroll to training and development. And how many can contend that their employees demonstrate the kind of motivation and energy that enables them to consistently exceed expectations and go that extra mile?

The Cascades Spirit This is the atmosphere that exists at Cascades. You might call it entrepreneurial spirit, since that is an apt description of the energy and enthusiasm that characterizes people who have the courage to take on something new, something original, and who have a strong desire to succeed. People who enjoy what they do, who seek responsibility and who can quickly adapt to a constantly changing reality.

This spirit reigns throughout the Cascades organization—in the Research and Development Centre, for instance: a centre that is one of the most highly productive and innovative in the Canadian paper industry. By developing processes that are original and unique, the Research Centre helps to create new products for all our operating units, and often enables them to anticipate their customers' needs. The Centre stimulates enthusiasm and the desire to exceed expectations in the other sectors of the Company, and it is just one example among many that embody what we call the Cascades "spirit" or the Cascades "philosophy".

We invest in our employees because we know that they are essential to the Company's success and we want to give all of them the opportunity to develop their talents and fulfill their potential. We believe that upgrading the knowledge and calibre of all the men and women who together form Cascades leads to greater motivation and, consequently, better overall performance.

We share our concerns with our personnel, but we also share our successes with them. By earning solid credibility among our employees, we also earn their support of measures that become necessary in tough economic times, we fuel their pride in times of success and we develop solid and committed human resources for the future. This kind of credibility can only be earned over time; it can only be maintained through complete honesty at all times.

Our management philosophy has evolved over the past 37 years, but it has always rested on the same solid foundation. This philosophy enables us to do more with less and to achieve ambitious objectives that would otherwise be unrealistic.

Alain Lemaire
Executive Vice-President

Objectives for 2002

Our results for 2001 give ample proof of the effectiveness of our growth strategy, a strategy of expansion primarily through acquisitions in the major industry sectors where we are active. With this in mind, we will continue to seek high-potential acquisitions and mutually beneficial partnerships. We are confident that this strategy will enable us to double in size by 2006, not seeking growth for its own sake, but building on Cascades' present strengths to improve our stance as a recognized leader in each of our core sectors. Time and again, we have demonstrated both our ability to identify the most promising acquisition opportunities in terms of potential returns, and our talent for quickly turning around a company or mill that is performing below par. This is a direction we will continue to pursue.

We believe more strongly than ever that our leadership in the area of collecting and reclaiming fibre will be the engine of success that will drive our long-term growth.

With our new financial structure in place which gives us greater flexibility, we are taking an additional step this year by integrating the Cascades name with the corporate names of our groups. This will raise our corporate profile in every region where we have operating units and will provide a more powerful representation of Cascades' scope. In addition to producing greater brand awareness, this will strengthen the sense of belonging among our employees while maximizing the synergy among our various operating units wherever possible.

The consolidation within the pulp and paper industry during the past few years has resulted in the rationalization of production capacity in a number of sectors and a new market dynamic. Within this context, Cascades is well positioned to continue differentiating itself from the competition, and we are confident that all our partners, be they shareholders, customers or employees, will benefit.

Our customers remain our central focus and we are committed to offering them the best possible service, staying on top of their changing needs and developing new products and services to meet them. We will also continue to optimize our assets, evaluate high-potential acquisition opportunities and maintain our leadership in the area of recovery and recycling. And of course, we will uphold our belief that our employees constitute our most valuable asset by far.

Fiscal 2002 and the years that follow will not necessarily be easy ones, but they will definitely be exciting, and we approach the future with an enthusiasm and optimism that spring from our accomplishments. We believe we now hold all the elements that will enable us to maintain our rate of growth and, with the enthusiastic cooperation of our employees, to offer our shareholders a return on equity that is substantially higher than that of the industry.

Laurent Lemaire
President and Chief Executive Officer

Bernard Lemaire
Chairman of the Board


Packaging Products
88 modern and efficient manufacturing and converting units

Cascades' Largest Operating Sector

Packaging Products is still Cascades' largest operating sector and in 2001 it accounted for nearly 60% of the Company's total sales.

Despite the economic slowdown affecting the pulp and paper industry for more than a year now, our Packaging Products sector managed to turn in a very satisfactory performance. We attribute this to strategic acquisitions and strict control of operating costs.

Boxboard: Encouraging Performance The Boxboard group showed definite progress in 2001, with mill profitability up in Europe as well as North America. This performance proves that the efforts of this group's employees have been effective, leading to quarter after quarter of noteworthy improvement. These efforts are part of a dynamic program to increase productivity and create synergy, and are meeting with success: for eight consecutive quarters now, we have seen a steady increase in profitability for all boxboard production mills and converting plants. It should be noted that the European mills in particular have made a significant contribution to this sector's productivity and profitability.

The folding carton plant in Winnipeg acquired from Crown Packaging Ltd. at the beginning of the year for $11 million has generated the expected synergies and proved that it was indeed a very worthwhile investment. As well, the Somerville Packaging plants continued the outstanding growth of their sales which has amounted to more than 10% annually for the past five years. The quality of the products and service, not to mention Somerville Packaging's capacity for innovation, continue to attract a large and loyal customer base.

Throughout the fiscal year, the Boxboard group showed admirable discipline by taking downtime in each mill when market conditions prevailed. Fortunately, improved selling prices since the beginning of the year compensated to some extent for the effects of the North American economic slowdown. Always focused on meeting customer needs effectively and ready to take on new challenges, this group, with the enthusiastic involvement of the employees at the Jonquière mill, developed and launched an innovative product last October: ArctiKoat™ paperboard. This is a new type of high-yield, low-density three-ply coated paperboard with outstanding printability and folding ease.

Markets evolve, and the demand for this type of value-added product is on the upswing. The Boxboard group is therefore working even harder to develop specialty products and services that meet specific needs and offer higher profit margins. This group is also taking a very active interest in the high-potential markets found in some Eastern European and Asian countries, and has opened a sales office in the Czech Republic, one in Poland and one in Hungary, along with a new sales agency in China that will be serving all of Cascades' operating sectors.

A forerunner in the industry, the Boxboard group designs [illegible] a wide range of recycled and hybrid boxboard.

Benefiting from the complementary nature of its divisions, Norampac has developed a strong expertise and offers quality boxes in a wide variety of styles.

Containerboard: Addition of Five New Units Fiscal 2001 was a year of rapid change in the Containerboard group. Norampac Inc., a 50% owned joint venture, increased its total number of mills by acquiring a major converting plant in the New York area, starting up a corrugated products plant in Saskatoon, Saskatchewan, and one in Monterrey, Mexico, in addition to investing $6 million dollars in a micro-flute corrugated converting plant in Dallas/Fort Worth, Texas. Moreover, Norampac consolidated its leading position in Canada in containerboard production with the acquisition of the Crown Packaging mill in Burnaby, British Columbia. The eight recycling plants acquired from the same producer were transferred in early 2002 to Metro Waste Paper Recovery, an affiliated company, in exchange for shares.

The real highlight of fiscal 2001 in the Containerboard group, however, was the opening of a brand new plant in Vaughan, Ontario, which had a successful start-up thanks to the enthusiastic cooperation of the employees. This unit, one of the most modern in North America, has a production capacity of three billion square feet and definitely constitutes a major asset in a highly competitive market. The huge production capacity and versatility of this plant will help make us more integrated, while providing a high degree of synergy with our paper mills.

The effects of the economic slowdown were also felt in the Containerboard group, where orders from U.S. markets decreased slightly. We still outperformed the competition and managed to increase sales, mainly in Canada, where Norampac remains the largest producer of containerboard and corrugated containers. Even so, profitability slipped somewhat due to the sharp drop in selling prices for corrugating medium and linerboard; we maintained our stock level through downtime that represented close to 10% of the annual paper production. As for the converting plants, they increased shipments by 7% during the year.

Even though the economic slowdown temporarily reduced the profitability of our Containerboard group, Norampac remains one of the lowest cost producers—a producer whose dynamic and determined teams are ready to conquer new markets.

375

million dollars invested in our units over the last three years

Specialty Products: Good Performance Despite a Falling Market Our Specialty Products group comprises 30 mills that produce mainly multi-ply paperboard, kraft paper, plastic and moulded pulp products and offer a variety of converting

services. These converting units play an essential role within the pulp and paper industry by supplying a large proportion of the packaging required by other North American producers. The three plants that came on stream in 2000 continued their start-up programs, and the honeycomb packaging plant in Ontario achieved satisfactory production levels by signing new contracts with major U.S. customers and starting production of innovative products. The U.S.-based polystyrene food container plant and the converting unit in France should be operating at full capacity later in 2002.

1.4
million metric tons
of packaging products
shipped in 2001

The Specialty Products group, a widely diversified sector that depends mainly on very targeted market niches of the pulp and paper industry, was hit particularly hard by the economic slowdown that prevailed in 2001. Among other things, lower prices for virgin pulp put downward pressure on the demand for our de-inked pulp products. We don't expect this market to fully recover before the second half of 2002. The waste paper recovery sector, on the other hand, turned its performance around with an increase in sales volume and improved profitability following a shift in operations and a strategic realignment of its sales team.

The performance of the moulded pulp products sector remained fairly steady compared to the previous year, but the plastic products sector set new records in its Québec plants by developing new specialty markets and significantly curbing production costs.

Thanks to a major capital investment program during the third quarter in order to modify its press section, the multi-ply paperboard mill managed to improve product quality and increase its production capacity by about 10%.

The Specialty Products group fulfills the needs of its clients by offering them a wide variety of value-added, innovative and complementary products.

Our kraft paper unit implemented a very strict cost-cutting program and as a result was able to record the best rate of return in its history for fiscal 2001.

Innovation is the key to success. In the first quarter of 2002, we will complete a $10 million investment program begun last year in our Kingsey Falls converting plant. The new high-performance extrusion line we are installing will be one of the best in North America and will allow us to tap into a broader clientele base outside the pulp and paper industry.

In a Good Position to Profit from the Recovery We are confident that, by continuing to make our customers our top priority and by offering them outstanding service, we will promote the growth of the Packaging Products sector. This will put us in a good position to take full advantage of the recovery when it occurs.

Developing High Value-Added Products

In the Fine Papers group in 2002, we will implement an investment program that will allow us not only to reduce production costs, but also to place more emphasis on specialty products and value-added services. This will increase our market differentiation and enhance our level of profitability. The security paper sector, for instance, is a niche we plan to develop since our expertise in this area gives us a considerable head start. We want to encourage innovation, anticipate the needs of our existing and future customers, and continue to work very closely with our Research and Development Centre to develop new products and capture new markets.

If we omit our Distribution Division, Graphic Resources, which is already the second largest fine paper distributor in Canada, almost 55% of sales of the Fine Papers group is generated in the United States. For this reason, we are looking very seriously at the possibility of opening a warehouse and a service centre south of the border. This kind of initiative would help us to strengthen our links with customers and suppliers in the United States and to further increase our market shares.

Throughout the past year, in spite of the economic slowdown, we have continued to maximize the synergy among our production units, and have diligently pursued our improvement and profitability program. The Breakeyville mill is steadily producing pulp from recycled fibre, making it possible to quickly meet the needs of a number of our production mills, not just in the Fine Papers group, but also in the Tissue group. Our Converting and Distribution Centre set up a few years ago in Saint-Jérôme is also doing very well. This unit is a great source of satisfaction for the Canadian and American clients of our production units by ensuring a sheet-cutting and delivery service of less than 24 hours in Eastern Canada and the Northeast United States. It is obvious in each case that integration presents numerous advantages.

The Fine Papers group made a mark in 2001 by its branding strategy reflected in the originality of its printed promotions that highlight the reputed quality of its products.

Unprecedented imports of Asian and European papers have put heavy downward pressure on prices for our products and forced some North American producers to cut back on their production. With the market remaining tight, the Fine Papers group's net sales for 2001 were down 8% from 2000 levels. A number of factors contributed to this decrease: the economic slowdown that hit particularly hard in the United States and a major increase in energy costs, the massive layoffs in the high-tech industry and the 12% rise in U.S. postal rates had consequences that were sharply felt by our mills and our Distribution Division.

The profitability of the Fine Papers group is closely linked to the strength of the economy. The economic recovery predicted for the second half of 2002 gives us reason to anticipate improved sales and margins for this group, especially with regard to uncoated papers.

Fine Papers

Strong performance in a highly competitive market

Accelerated Growth & Increased Profitability

If one sector was the star performer of 2001, it would have to be the Tissue group, with its strong growth resulting in net sales of $511 million compared to $320 million in 2000, an increase of 60%. Three main factors account for this remarkable performance: the acquisitions made during the year, improved productivity in our mills, and greater operational integration. All this goes to show that the investments made in this group as part of the three-year capital investment program implemented in 1997 are producing convincing results. This program aimed to increase the production capacity of our paper machines and expand our converting operations. These improvements, tighter cost controls and optimizing the equipment have made the Tissue group one of the best performing sectors of Cascades.

24%

net sales annual compounded growth for the last three years

Consequently, 2001 was a very good year for the Tissue group. Raw materials costs went down while the demand for our retail products remained high, leading to increased production in our mills. Actually, this group's products are not particularly vulnerable to economic cycles: year in, year out, in good times and bad, the overall demand for this type of product increases at a rate that roughly parallels population growth: when there are fewer people in the job market, when people are less likely to travel and eat in restaurants, the demand for our commercial and industrial products drops; at the same time, though, the demand for our retail products increases by about the same amount. The strategy is to quickly shift production in our mills, and even—as we are increasingly attempting to do—anticipate the needs of our various markets.

Among the improvements in the Tissue group, it is important to note that, after experiencing some start-up problems in 2000, the new tissue paper machine installed at the mill in Rockingham, North Carolina, is now up to speed. This machine has been contributing to the group's excellent performance since the third quarter of 2001.

The commercial and industrial sector of the Tissue group gives its clients a one-stop shopping solution by offering a diversified range of brand name products.

Tissue Papers

5th largest tissue producer in North America

68%

of our tissue paper production can be converted

With the November 2000 acquisition of Wood Wyant, Canada's largest integrated company in the manufacture, converting and distribution of sanitation supplies, Cascades affirmed its intention to consolidate its position as the Canadian leader in the commercial and industrial tissue paper market. This unit's first full year of operation as part of the Cascades organization has confirmed the accuracy of our assessment: the integration of these units, which increased our sales by more than $90 million, is already producing the expected results.

Also, the 2001 third-quarter purchase for $89 million of the two Plainwell tissue mills, located in Wisconsin and Pennsylvania, enabled us to increase our production capacity by more than a third to 372,000 short tons per year, placing Cascades in fifth place among North American tissue paper producers. This recent transaction, like the Wood Wyant acquisition, is a fine example of our ability to acquire attractive assets with a potential for high returns and make them even more efficient and profitable.

The addition of the two Plainwell plants in the United States will bring this group's annual sales volume to $650 million and will make Cascades a major player in this sector, while providing excellent access to the U.S. market, a market where we have earned a reputation for producing high-quality products. Most of our products are light and bulky, making it expensive to ship them long distances. With this in mind, development in this area will necessarily be at the local or regional level, based on our existing production facilities or future acquisitions.

Specialized in private-label tissue paper production for the retail sector, Cascades also markets its own brands.


Our Values

Cascades has always upheld the values that our founders believed essential to our success: respect, the desire to always do better, open-mindedness, accountability and commitment. While many things have changed since 1964, these values still provide a firm foundation for Cascades' corporate culture and success—and they always will.

A Culture to Share

Because Cascades' corporate culture has played such an important role in the Company's outstanding success, it is important that this culture spreads and takes root wherever the Company does business. With this in mind, we created the position of Vice-President, Corporate Culture and Public Relations. Rina P. McGuire, who holds this position, was formerly General Manager of the Recovery Division, a sector that constitutes the very heart of Cascades' operations. Ms. McGuire will be responsible for imparting our corporate culture and promoting the Company's core values in all of our units.

Respect

The one value that best represents the culture of Cascades is, without question, respect. Respect for people, of course, but also respect for nature and the environment. This respect is expressed through the kind of transparency, open-mindedness and individual accountability that is rarely found in companies of this size. In terms of respect for the environment, Cascades has been at the forefront of its industry throughout its history. Indeed, Cascades and its subsidiaries remain strongly committed to the protection of the environment and our natural resources, and make substantial annual investments in processes, equipment and training that allow them to maintain their exemplary behaviour. Eight Cascades mills have already received ISO 14001 certification; others are following suit and will be certified during fiscal 2002.

Exceeding Expectations

Exceeding expectations is a recurring theme at Cascades. Believing that we will succeed where others have failed is nothing unusual for us: just look at the success of our Research and Development Centre; it produces excellent financial results while other R&D centres are cutting back on operations. Similarly, our continuous improvement programs resulted in savings of $20 million in 2001 and we expect to see savings of $30 million in 2002.

Commitment

Cascades' corporate culture fosters a strong sense of belonging. The fact that employee seniority averages 10 years while the average age of our employees is barely 41 is an indication of how proud our people are to be part of a company that empowers them and encourages them to be totally committed to what they do, not only professionally, but also in their social environment. Everybody wins: our employees, their communities and Cascades, which can rely on a highly-motivated workforce.

Workforce

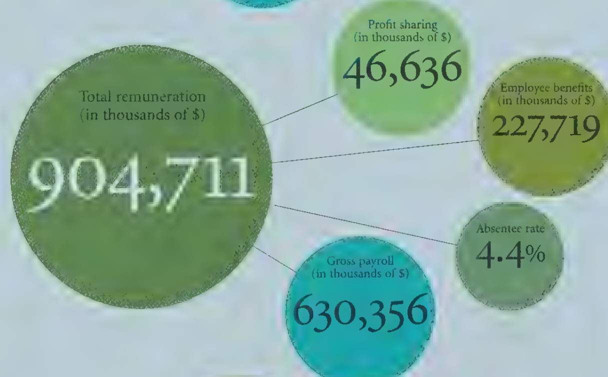
The number of employees working for Cascades topped 14,000 in 2001, an increase of 14% from the previous year. It is interesting to note that our workforce has grown by 75% since 1996, reflecting the many acquisitions made in the past few years.

Health and Safety

The three-year plan introduced in 2001 to reduce accident frequency and severity in all our North American mills is already producing encouraging results. The Tissue group, in particular, has shown the most significant improvement. Furthermore, for the Company as a whole, the number of time-loss accidents dropped by 17.3%.

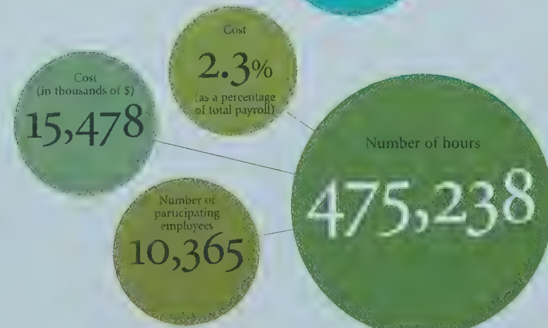
Remuneration

The total remuneration paid to Cascades' employees in 2001 amounted to $905 million, of which $47 million was distributed from the profit-sharing program in recognition of our employees' contributions to last year's excellent performance within their individual business units and the Company as a whole.



Training

Cascades puts great stock in training to enable each of our employees to achieve their full potential and to develop a strong workforce that is always ready to take on new challenges, now and in the future. In fiscal 2001, more than 10,000 employees participated in a wide variety of training activities, and the Company devoted approximately $15.5 million to these various programs.



Emmanuelle Migneault
Human Resources Coordinator

The most remarkable thing about Cascades' development is not simply its growth in financial terms, but the fact that the Company has grown this much without losing any of the vitality and momentum that characterized its early days. There is no question that our values have had a lot to do with this. In fact, Cascades is really a group of men and women in many parts of the world who share one goal, one vision, one philosophy. This philosophy has been the key to our success in years past and will remain the best guarantee of our success in years to come.

Let's talk figures

Packaging Products is Cascades Inc.'s main operating sector, with the Company manufacturing, converting and marketing a wide range of products, including boxboard, containerboard and a variety of other specialty packaging materials. Cascades is also very active in two other sectors: fine papers and tissue papers. Please note that the financial information of the Containerboard group represents 50% of our joint venture, Norampac Inc.

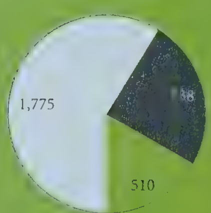
Consolidated Operating Results Cascades' total sales amounted to $3.2 billion in 2001, compared to $3.0 billion in 2000. After deducting the cost of delivery, net sales for the year totalled $3.02 billion, up 5.5% from net sales of $2.87 billion a year earlier. As a result, the Company posted a net sales / total capitalization ratio of 1.3:1. This growth is due mainly to the businesses acquired during the year, since these acquisitions achieved net sales of $132 million in 2001. All of our operating sectors showed higher shipments except for the Fine Papers sector. Moreover, prices per ton sold, expressed in Canadian dollars, were up slightly for most of our products with the exception of products from the Containerboard and Fine Papers groups. This improvement in per-ton prices was due to a number of factors, notably exchange rate fluctuations and a higher percentage of sales coming from converted products, which command higher prices than non-converted products.

(in millions of $, except amounts per share)	2001	2000
Net sales	3,023	2,866
EBITDA	380	339
EBITDA/net sales	12.6%	11.8%
Net earnings	120	75
Net earnings per common share	$ 1.47	$ 1.12

Earnings before interest, taxes, depreciation and amortization (EBITDA) stood at $380 million for 2001 compared to $339 million for fiscal 2000, an increase of 12%. EBITDA as a percentage of net sales also improved, rising from 11.8% in 2000 to 12.6% in 2001. This improvement, achieved despite the fact that the cost of natural gas per unit increased more than 21% in 2001, derives mainly from an increase in the proportion of value-added products in our total sales and a significant drop in the average cost of recycled fibre.

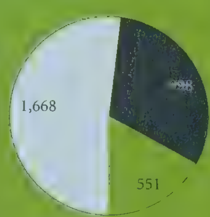
While it is true that shipments were up for most of our business sectors, our positive results in 2001 are due to very aggressive Company-wide cost controls, and to considerable improvement in the operating profitability of the Tissue and Boxboard groups; in fact, these two groups generated 18.7% and 10.2% of the EBITDA margin, respectively, versus 11.2% and 8.3% in the previous year.

Amortization expenses were up 5% in 2001, to $132 million, compared to $125 million a year earlier; this increase stems from the investments made in the past two years along with this past year's business acquisitions. Consolidated earnings from operations were up 16% to $248 million, compared to $214 million for the previous year, and the operating margin rose from 7.5% in 2000 to 8.2% in 2001.



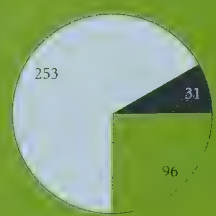
Consolidated net sales
(in millions of $)

Packaging products
Fine papers
Tissue papers



Geographic sales
(in millions of $)

Canada
USA
Europe & others



Consolidated EBITDA
(in millions of $)

Packaging products
Fine papers
Tissue papers

Consolidated net sales	
Packaging products	59%
Fine papers	24%
Tissue papers	17%
Geographic sales	
Canada	54%
USA	28%
Europe & others	18%
Consolidated EBITDA	
Packaging products	67%
Fine papers	8%
Tissue papers	25%

Financial expenses for the year totalled $89 million as at December 31, 2001, compared to $91 million a year earlier. In spite of the number of major debt-financed acquisitions during the year, this $2 million improvement was made possible by several factors: our strong cash flow, the tight management of our working capital, keeping capital expenditures below amortization, and the drop in interest rates. In this regard, it should be noted that approximately 50% of the Company's long-term debt is contracted under variable rates.

During the fiscal year ended December 31, 2001, Cascades registered an unusual gain of $7 million before income taxes and shares of non-controlling interests, compared to an unusual loss of $1 million in 2000. The unusual gains in 2001 include a profit of $30 million before future income taxes of $7 million, arising from the disposition of shares and dilution of our investment in our affiliate, Boralex Inc.; a gain of $4 million before income taxes of $1 million, following the expropriation of land; and a $2 million gain arising from a contingent consideration related to the sale of our interest in the Tartas S.A. fluff-pulp mill in 1999. Unusual losses for the year include $29 million, before future income taxes of $4 million, stemming mainly from the value impairment of certain assets of the Specialty Products group.

The Company's income tax expense remained steady compared to fiscal 2000, at $49 million, due to a decrease in the effective tax rate from 40.3% to 29.2%; this decrease is due to reductions in the corporate income tax rate in certain Canadian provinces during the year, and to the revaluation of certain fiscal assets.

Cascades ended fiscal 2001 with net earnings of $120 million or $1.47 per common share, up 60% over net earnings of $75 million or $1.12 per common share in 2000. Excluding the unusual items, Cascades' net earnings stood at $116 million or $1.42 per common share for fiscal 2001, versus $77 million or $1.14 per common share for fiscal 2000.

Summary of Segmented Operating Results

Packaging products	Net sales (in millions of $)		EBITDA (in millions of $)		Shipments (in thousands)			Average selling prices (in $/unit)	
	2001	2000	2001	2000	2001		2000	2001	2000
Boxboard									
North America	442	405	35	28	296	mt	295	1,493	1,373
Europe	412	400	52	39	479	mt	472	860	847
	854	805	87	67	775	mt	767		
Containerboard [1]									
Manufacturing	347	362	67	77	679	st	655	511	553
Converting	414	376	38	41	5,241	tsf	4,896	79	77
Others and eliminations	(210)	(202)	7	7					
	551	536	112	125					
Specialty products	444	488	54	64					
Eliminations	(24)	(32)	–	–					
	1,825	1,797	253	256					

(1) The containerboard sub-segment represents 50% of Norampac Inc.

Packaging Products In 2001, the Packaging Products sector contributed $28 million to the increase in consolidated net sales, but reduced the consolidated EBITDA by $3 million. While this segment's net sales rose from $1.8 billion to $1.83 billion, an increase of 1.5%, its EBITDA was $253 million, a drop of 1.2%. The EBITDA margin went from 14.2% in 2000 to 13.9% in 2001. The respective contributions of each of this sector's main groups are detailed below.

The Boxboard group posted a 6% growth in its net sales due mainly to an 8.7% increase in selling prices for products from its North American manufacturing and converting operations, while shipments remained relatively steady compared to the previous year. The increase in average selling prices for its products was mainly the result of a stronger U.S. dollar. This factor, along with higher revenue arising from an increase in converted products as a percentage of total sales, and the acquisition of a converting unit in Winnipeg, Manitoba, helped to fuel a $37 million increase in net sales for our boxboard manufacturing facilities in North America.

The Boxboard group's EBITDA was up 30% to $87 million, due mainly to decreased operating costs for our manufacturing units. A third of this increase, i.e. $7 million, comes from our North American units which benefited from lower prices for recycled paper. Our European units made a $13 million contribution to this increase thanks to lower prices for commercial pulp and increased productivity in our mill in Sweden.

The Containerboard group, consisting of Norampac Inc., a 50% joint venture, increased its net sales by 3%, or $15 million; this growth stemmed primarily from the plants acquired over the past two years which generated net sales of $46 million. The decrease in sales from the other plants was due mainly to softer prices for linerboard and corrugating medium as well as the planned downtime taken in some plants to adjust production to demand.

The manufacturing operations increased their shipments by 3.7%, but had to contend with a 7.6% drop in average selling prices. The converting plants, on the other hand, posted a 7% rise in shipments while keeping average selling prices more or less the same as a year earlier.

The Containerboard group's EBITDA was $112 million, down 10.4%; this drop is primarily the result of selling price erosion and the numerous planned downtimes taken during the year.

The Specialty Products group posted net sales of $444 million, down 9%, while its EBITDA decreased 15% to $54 million. This was due mainly to the substantially reduced contribution of the recovery and de-inking units following the collapse of virgin pulp prices in 2001. Because these market conditions make our de-inked pulp much less competitive, we were forced to take a number of periods of downtime and to keep production substantially below capacity. Two other factors contributed to the drop in EBITDA: a decline in sales for some of our units in the building materials market and the longer-than-expected start-up of three units that came on stream towards the end of 2000.

Fine papers	Net sales (in millions of $)		EBITDA (in millions of $)		Shipments (in thousands)		Average selling prices (in $/unit)	
	2001	2000	2001	2000	2001	2000	2001	2000
Manufacturing	418	450	18	26	297	304	1,407	1,480
Distribution	405	442	13	21				
Eliminations	(77)	(87)	–	–				
	746	805	31	47				

Fine Papers Our Fine Papers group ended the fiscal year with net sales down 7.3%; this decline was due to a 2.3% drop in shipments and a 4.9% drop in average selling prices for the manufacturing units, as well as an 8.4% reduction in sales for the Distribution Division. EBITDA went from $47 million in 2000 to $31 million in 2001, leading to a proportional reduction in the EBITDA margin from 5.9% to 4.2%. These results reflect the soft market for coated fine papers, a market where imports to North America have increased sharply, with the consequence of surplus capacity among manufacturers on this side of the Atlantic.

Tissue papers	Net sales (in millions of $)		EBITDA (in millions of $)		Shipments (in thousands)		Average selling prices (in $/unit)	
	2001	2000	2001	2000	2001	2000	2001	2000
Manufacturing	425	307	86	36	247	204	1,721	1,505
Distribution	105	14	10	–				
Eliminations	(19)	(1)	–	–				
	511	320	96	36				

Tissue Papers The Tissue group saw its net sales increase by 60% in 2001, to reach $511 million. This significant increase was made possible by two acquisitions: Wood Wyant in the fourth quarter of 2000 and, in the third quarter of 2001, two U.S. mills that were formerly part of the Plainwell Consumer Products Division. The increase in net sales for this group is also due to the additional volume generated by the new equipment acquired under the $120 million capital investment program carried out from 1997 to 1999.

This group's EBITDA rose from $36 million in 2000, a margin of 11.2%, to $96 million in 2001, a margin of 18.7%. This strong increase in EBITDA was fuelled by the acquisitions made in 2000 and 2001, the drop in the price of recycled fibre, and improved profitability at the Rockingham mill. In fiscal 2000, this mill's results had been negatively affected by the start-up of a new paper machine with a capacity of 30,000 short tons which is 8 % of our manufacturing units' total capacity. The Tissue group also benefited from a higher percentage of converted products in its total shipments; these products, which generate a higher EBITDA margin than our jumbo rolls, accounted for 66% of the tonnage shipped in 2001, versus 57% a year earlier.

Consolidated Cash Flows Cascades' cash flow from operations was up 16% in 2001, to $249 million. In line with our objectives, capital expenditures totalled $122 million, and were distributed as follows: $94 million in the Packaging Products sector, $11 million in the Fine Papers sector, and $17 million in the Tissue sector. Thus, Cascades invested 49% of its cash flow from operations in new fixed assets over the course of fiscal 2001, compared to 69% in the previous year.

Approximately $12 million was invested in a variety of major projects aimed at reducing our energy consumption and improving energy efficiency. Moreover, we invested an additional amount of approximately $15 million to upgrade the converting capacity of the Containerboard group. The balance of our capital expenditures was used to improve the productivity and efficiency of our mills.

In 2001, Cascades acquired seven companies at a total cost of $148 million. First, the Company purchased a folding box plant in Winnipeg for the Boxboard group at a cost of $11 million. In the Containerboard group, Norampac acquired a mill in Burnaby, British Columbia, as well as eight recycling plants located in British Columbia, Alberta and Manitoba, for a total consideration of $26 million. The Containerboard group also purchased a company that operates a corrugated converting plant in Maspeth, New York, at a cost of $22 million. As for the Tissue group, it acquired two mills located in Wisconsin and in Pennsylvania, for a consideration of $89 million.

The Containerboard group's acquisitions were financed partly with liquid assets and partly with the available credit facilities. The acquisitions in the Boxboard and Tissue groups were financed using the available credit facilities.

Cascades also contracted a new long-term debt of $53 million in 2001, mainly to finance the business acquisitions made during the course of the year. We also repaid a total of $82 million of debt, $50 million of which was from the Boxboard group. Although this amounted to a net repayment of $29 million, it was almost entirely offset by an increase in U.S. currency debt. Therefore, total debt as at December 31, 2001 stood at approximately the same amount as at the same date a year earlier.

In 2001, the Company also acquired $5 million in shares of Cascades S.A., thereby increasing its interest in this European subsidiary to almost 95%. Furthermore, taking into account the dividend of $0.12 per share paid in June 2001 for a total of $10 million, we have reduced our liquid assets by $10 million since December 31, 2000. Thus, on December 31, 2001, Cascades held cash and cash equivalents totalling $31 million, compared to $41 million a year earlier.

Consolidated Financial Position as at December 31, 2001 Cascades' working capital stood at $348 million as at December 31, 2001, for a ratio of 1.57:1. On the same date, our consolidated long-term debt totalled $1.1 billion and our total net indebtedness was $1.17 billion. In both cases, this is substantially the same as last year. Shareholders' equity rose from $776 million at the end of 2000 to $891 million at the end of 2001.

We reduced the ratio of net funded debt to total capitalization from 53% in 2000 to 51% in 2001. Our short-term objective is to reduce this ratio to less than 50%.

Risks and Uncertainties

Earnings sensitivity	Price changes	BAIIA (in millions of $)	Earnings per share
Boxboard	+ US$20/mt	25	$ 0.19
Containerboard	+ US$25/st	28	$ 0.22
Tissue papers	+ US$15/st	8	$ 0.06
Fine papers	+ US$40/st	19	$ 0.15
Waste papers	+ US$10/st	(26)	$(0.20)
Commercial pulp	+ US$50/mt	(11)	$(0.08)
Interests	+ 1%	–	$(0.05)
Natural gas	+ US$1/mmbtu	(19)	$(0.15)
U.S. dollar	+ US$ 0.01 vs CA$	(7)	$(0.06)

The chart above quantifies the impact on Cascades' consolidated EBITDA and earnings per share of possible changes not only in the prices of our main products and raw materials, but also in interest rates and the exchange rate of the U.S. dollar.

To reduce their vulnerability to selling price fluctuations, some units have implemented risk management programs and guarantee their selling prices through agreements with major clients for periods of three to five years.

Also, from time to time, Cascades negotiates term contracts to protect itself against increases in energy prices, especially for natural gas, and to stabilize prices for periods of less than 12 months. As for raw materials, the fact that we both buy and sell commercial pulp limits our vulnerability to price fluctuations in this area.

Cascades and its subsidiaries also have recourse to a variety of financial instruments to reduce the risks related to currency and interest rate fluctuations. For example, we can negotiate forward exchange contracts that can cover up to 50% of the net exchange risk for periods of 12 to 24 months.

Environment Cascades' environmental mission is based on the requirements of the ISO 14001 standard; the Company promotes continuous improvement where the environment is concerned and strictly upholds or exceeds the standards in force in every country where it does business. For instance, with regard to standards in effect for effluent discharge into waterways in Canada, Cascades' performance is substantially better than the Canadian pulp and paper industry's average; the same goes for average overall discharge of suspended solids, the biochemical oxygen demand over five days (BOD_5) and average overall effluent discharge which are, respectively, 1 kg/mt, 0.6 kg/mt and 17.6 m^3/mt.

The ongoing improvement with regard to the environment and sustainable development at Cascades takes the form of a number of very practical programs: reduction of water consumption and effluent discharge at our mills; reduction of waste sent to landfills by using reduction at source and waste recovery methods; reduction of energy consumption and control of greenhouse gases; ongoing implementation of ISO 14001 environmental management systems; and, of course, continuous training of employees and management.

Outlook for 2002

While we expect the economic slowdown to continue in some of our market sectors, especially the Containerboard and Fine Papers sectors, we are confident that our diversification and strong positioning in a number of consumer markets will allow the Group as a whole to record excellent results again in 2002.

We also expect that the strength of our cash flows, combined with a capital expenditures budget limited to $120 million, will make it possible to further reduce our debt ratio. Keep in mind that as at December 31, 2001, Cascades had unused bank credit facilities totalling $379 million, including $104 million for its Norampac joint venture.

In the Boxboard group, we expect to see a continuation of the constant improvement in profitability of the past eight quarters. Furthermore, our new sales offices in Asia and Eastern Europe should make a significant contribution to the recovery of our European operations that began last year.

Throughout 2002, the Containerboard group will continue to tailor its production to suit market demand; it will further its integration and aim to increase its market shares in the United States through strategic investments or acquisitions.

As for the Specialty Products group, it will complete the start-up programs begun in three units at the end of fiscal 2000, and will pursue the work undertaken in order to make profitable certain underperforming units.

The Fine Papers group will continue to develop products for highly-targeted market niches and will base its investment decisions on criteria consistent with reducing production costs.

Lastly, the Tissue group should continue to post outstanding results while pursuing its growth strategy through acquisitions. By investing more heavily in converting equipment, this group will be able to increase the proportion of converted products in its overall sales as a means to achieving higher revenues.

Again in 2002, we will likely have to plan for downtime in some groups to adjust production to demand. However, we expect recycled fibre prices to remain relatively steady which will help us to maintain an adequate level of profitability, especially if energy costs do not rise, interest rates stay low and the value of the Canadian dollar against its U.S. counterpart remains in our favour.

Quarterly Results

(in millions of $, except per share amounts)
(unaudited)

	2001					2000				
	March 31	June 30	September 30	December 31	Total	March 31	June 30	September 30	December 31	Total
Net sales	733	754	757	779	3,023	707	717	729	713	2,866
EBITDA	79	90	106	105	380	71	89	97	82	339
Operating income	48	58	74	68	248	40	59	65	50	214
Net earnings	22	43	37	18	120	11	24	26	14	75
per share	0.27	0.52	0.46	0.22	1.47	0.16	0.36	0.40	0.20	1.12
Net earnings excluding unusual items	13	27	35	41	116	11	22	24	20	77
per share	0.16	0.32	0.43	0.51	1.42	0.16	0.33	0.36	0.29	1.14

Management's and Auditors' Report

Management's Report The consolidated financial statements for the years ended December 31, 2001 and 2000 were completed by the management of Cascades Inc., reviewed by the audit committee and approved by the Board of Directors. They were prepared in accordance with accounting principles generally accepted in Canada and are consistent with the Company's business.

The Company and its subsidiaries maintain high quality systems of internal controls. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable. The information included in this Annual Report is consistent with the financial statements contained herein.

The financial statements have been audited by PricewaterhouseCoopers LLP whose report is provided below.

Laurent Lemaire

Laurent Lemaire
President and Chief Executive Officer
Kingsey Falls, Canada
January 28, 2002

Auditors' Report To the Shareholders of Cascades Inc. We have audited the consolidated balance sheets of Cascades Inc. as at December 31, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Montréal, Canada
January 28, 2002

As at December 31, 2001 and 2000
(in millions of $)

Consolidated Balance Sheets

	Note	2001	2000
Current assets			
Cash and cash equivalents		31	41
Accounts receivable		491	525
Inventories	3	438	418
		960	984
Property, plant and equipment	4	1,481	1,376
Other assets	5	313	277
		2,754	2,637
Current liabilities			
Bank loans and advances		101	117
Accounts payable and accrued liabilities		451	432
Current portion of long-term debt			
With recourse		19	5
Without recourse		41	46
		612	600
Long-term debt	6		
With recourse		268	201
Without recourse		775	844
Other liabilities	7	208	216
Shareholders' equity			
Capital stock	8	260	260
Retained earnings		615	505
Cumulative translation adjustments		16	11
		891	776
		2,754	2,637

Approved by the Board of Directors

Laurent Lemaire
Director

Bernard Lemaire
Director

Consolidated Statements of Retained Earnings

For the years ended
December 31, 2001 and 2000
(in millions of $)

	Note	2001	2000
Balance – Beginning of year			
As previously reported		505	479
Changes in accounting policies	1	–	(42)
As restated		505	437
Net earnings for the year		120	75
Dividends on common shares		(9)	(7)
Dividends on preferred shares		(1)	–
Balance – End of year		615	505

Consolidated Statements of Earnings

For the years ended
December 31, 2001 and 2000
(in millions of $,
except per share amounts)

	Note	2001	2000
Sales		3,217	3,031
Cost of delivery		194	165
Net sales		3,023	2,866
Cost of sales and expenses			
Cost of sales		2,325	2,245
Selling and administrative expenses		318	282
Amortization		132	125
		2,775	2,652
Operating income		248	214
Financial expenses			
Interest on long-term debt		81	77
Other interest		8	14
		89	91
		159	123
Unusual items	9	7	(1)
		166	122
Provision for income taxes	10	49	49
		117	73
Share of results of significantly influenced companies		3	5
Non-controlling interests		–	(3)
		3	2
Net earnings for the year		120	75
Net earnings and diluted net earnings per common share		1.47	1.12

For the years ended December 31, 2001 and 2000 (in millions of $)

Consolidated Statements of Cash Flows

	Note	2001	2000
Operating activities			
Net earnings for the year		120	75
Items not affecting cash			
Amortization		132	125
Unusual items		(3)	1
Future income taxes		2	11
Share of results of significantly influenced companies		(3)	(5)
Non-controlling interests		–	3
Other		1	4
		249	214
Change in non-cash working capital components	11	65	(45)
		314	169
Investing activities			
Purchase of property, plant and equipment		(116)	(148)
Other assets		(2)	(7)
Business acquisitions and disposal	2	(148)	(30)
		(266)	(185)
Financing activities			
Bank loans and advances		(16)	25
Increase in long-term debt		53	92
Payments of long-term debt		(82)	(62)
Dividends		(10)	(7)
Other		(5)	(9)
		(60)	39
Change in cash and cash equivalents during the year		(12)	23
Translation adjustments on cash and cash equivalents		2	(1)
Cash and cash equivalents – Beginning of year		41	19
Cash and cash equivalents – End of year		31	41
Supplemental disclosure			
Financial expenses paid		86	84
Income taxes paid		40	42
Acquisition of property, plant and equipment under a capital lease		6	–
Acquisition of non-controlling interests by the issuance of common shares		–	96

Segmented Information

The Company's operations are principally in the following segments: packaging products, fine papers and tissue papers. The classification of these operating segments is based on the primary operations of the main subsidiaries and joint ventures of the Company.

The Company analyzes the performance of its operating segments based on their EBITDA which is defined as earnings before income taxes, non-controlling interests, share of results of significantly influenced companies, unusual items, financial expenses and amortization. EBITDA is not a measure of performance under Canadian generally accepted accounting principles; however, management uses this performance measure for assessing the operating performance of its reportable segments. Earnings for each segment are prepared on the same basis as those of the Company. Intersegment operations are recorded on the same basis as sales to third parties, which is at fair market value.

The earnings and assets of the Company presented by reportable segments are as follows:

For the years ended
December 31, 2001 and 2000
(in millions of $)

	Net sales 2001	Net sales 2000	EBITDA 2001	EBITDA 2000	Purchase of property, plant and equipment 2001	Purchase of property, plant and equipment 2000
Packaging products						
Boxboard						
North America	442	405	35	28	9	11
Europe	412	400	52	39	14	15
	854	805	87	67	23	26
Containerboard[1]						
Manufacturing	347	362	67	77	21	19
Converting	414	376	38	41	26	24
Other and eliminations	(210)	(202)	7	7	–	–
	551	536	112	125	47	43
Specialty products	444	488	54	64	24	30
Eliminations	(24)	(32)	–	–	–	–
	1,825	1,797	253	256	94	99
Fine papers						
Manufacturing	418	450	18	26	10	11
Distribution	405	442	13	21	1	3
Eliminations	(77)	(87)	–	–	–	–
	746	805	31	47	11	14
Tissue papers						
Manufacturing	425	307	86	36	16	35
Distribution	105	14	10	–	1	–
Eliminations	(19)	(1)	–	–	–	–
	511	320	96	36	17	35
Eliminations	(59)	(56)	–	–	–	–
Total	3,023	2,866	380	339	122	148
Amortization			(132)	(125)		
Operating income			248	214		

(1) The containerboard sub-segment represents 50% of Norampac Inc.

For the years ended December 31, 2001 and 2000 (in millions of $)

Segmented Information

	2001	2000
Packaging products		
Boxboard	902	917
Containerboard [1]	726	662
Specialty products	535	524
	2,163	2,103
Fine papers	363	374
Tissue papers	507	414
Consolidation revaluation	(207)	(212)
Intersegment eliminations	(72)	(42)
Total	2,754	2,637

(1) The containerboard sub segment represents 50% of Norampac Inc.

	2001	2000
Sales		
Canada		
Within Canada	1,659	1,620
To the United States	656	665
Offshore	47	58
	2,362	2,343
United States		
Within the United States	342	193
To Canada	9	9
	351	202
France		
Within France	101	125
Outside France	189	164
	290	289
Other countries	214	197
Total	3,217	3,031
Property, plant and equipment		
Canada	1,000	987
United States	273	189
France	145	142
Other countries	63	58
Total	1,481	1,376

December 31, 2001 and 2000
(tabular amounts in millions of $)

1. Accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the following significant accounting policies:

Basis of consolidation The consolidated financial statements include the accounts of the Company and its subsidiaries, which have been accounted for using the purchase method. They also include the portion of the accounts of the joint ventures accounted for through the proportional consolidation method. Investments in significantly influenced companies are accounted for using the equity method.

Use of estimates The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the balance sheet date as well as the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they are known.

Changes in accounting policies On January 1, 2000, the Company applied two new recommendations of the Canadian Institute of Chartered Accountants (CICA) regarding employee future benefits and income taxes. These changes, which have been applied retroactively without restating the comparative figures, resulted, for the first recommendation, in an increase in other assets of $8,384,000, an increase in other liabilities of $41,318,000 and a decrease in retained earnings of $21,870,000, after deduction of related future income taxes of $11,064,000. The second recommendation resulted in a decrease in working capital components of $2,330,000, an increase in property, plant and equipment of $6,094,000, an increase in future income tax liabilities of $32,660,000 and a decrease in retained earnings of $19,758,000, after deduction of non-controlling interests of $9,138,000.

The Company also applied retroactively on January 1, 2000 the new recommendation related to the calculation of diluted earnings per share. This change did not have any effect on the 2000 amounts per share.

Fair market value of financial instruments The Company has estimated the fair market value of its financial instruments based on current interest rates, market value and current pricing of financial instruments with similar terms. Unless otherwise disclosed herein, the carrying value of these financial instruments, especially those with current maturities such as cash and cash equivalents, accounts receivable, bank loans and advances, and trade accounts payable and accrued liabilities, approximates their fair market value.

Cash and cash equivalents Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with maturities of three months or less.

Inventories Inventories of finished goods are valued at the lower of average production cost and net realizable value. Inventories of raw materials and supplies are valued at the lower of cost and replacement value. Cost of raw materials and supplies is determined using the average cost and the first-in, first-out method respectively.

Property, plant and equipment and amortization Property, plant and equipment are recorded at cost, including interest incurred during the construction period of certain property, plant and equipment. Amortization is calculated on a straight-line basis at annual rates varying from 3% to 5% for buildings, 5% to 10% for machinery and equipment, and 15% to 20% for automotive equipment, determined according to the useful life of each class of property, plant and equipment.

Grants and investment tax credits Grants and investment tax credits are accounted for using the cost reduction method and are amortized to earnings as a reduction of amortization, using the same rates as those used to amortize the related property, plant and equipment.

Other investments Other investments are recorded at cost except when there is a decline in value which is other than temporary, in which case they are reduced to their estimated net realizable value.

Goodwill Goodwill arising from business combinations initiated on or after July 1, 2001 is not amortized in accordance with the transitional provisions of the new recommendation of the CICA dealing with business combinations. Goodwill previously recorded is amortized on a straight-line basis over periods not exceeding 25 years. The Company assesses periodically whether a provision for permanent impairment in the value of goodwill should be recorded to earnings. This is accomplished mainly by determining whether projected undiscounted future cash flows exceed the net book value of goodwill.

Deferred charges Deferred charges are recorded at cost less accumulated amortization and include, in particular, the issuance costs of long-term debt, which are amortized on a straight-line basis over the anticipated period of repayment of the respective debt, and start-up costs which are amortized on a straight-line basis over a period of three to five years from the end of the start-up period.

Environmental costs Environmental expenditures, including site rehabilitation costs, are expensed or capitalized depending upon their future economic benefit. Expenditures incurred to prevent future environmental contamination are capitalized and amortized on a straight-line basis at annual rates varying from 3% to 10%. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. A provision for environmental costs is recorded when it is probable that a liability has been incurred and the costs can be reasonably estimated.

Employee future benefits Certain subsidiaries and a joint venture of the Company maintain defined benefit pension plans which provide retirement benefits for certain employees based upon the length of service and, in certain cases, the final average earnings of the employee. In addition, certain employees are members of defined contribution pension plans and group RRSPs. The Company and its subsidiaries and joint ventures also provide to their employees complementary retirement benefits and other post-employment benefits, such as group life insurance and medical and dental care plans.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on years of service and management's best estimate of expected plan investment performance, salary escalations, retirement ages of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs arising from a plan amendment are amortized on a straight-line basis over the average remaining service period of the group of employees active at the date of the amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Income taxes The Company uses the liability method in accounting for income taxes. According to this method, future income taxes are determined using the difference between the accounting and tax bases of assets and liabilities. The tax rate in effect when these differences will reverse is used to calculate future income taxes at the balance sheet date. Future income tax assets are recognized when it is more likely than not that the assets will be realized.

Foreign currency translation

Foreign currency transactions Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the rate of exchange prevailing at the balance sheet date. Unrealized gains and losses on translation of long-term monetary items are deferred and amortized over the remaining lives of these items, except for the gains and losses related to the portion of the long-term debt designated as a hedge of the net investment of the Company in self-sustaining operations, which are offset against the cumulative translation adjustments. Unrealized gains and losses on translation of other monetary assets and liabilities are reflected in the determination of the net results for the year. Unrealized gains and losses on forward exchange contracts used to hedge future revenue streams in foreign currencies are deferred and accounted for as part of the transaction being hedged.

(tabular amounts in millions of $)

Foreign operations The Company's foreign operations are defined as self-sustaining. The assets and liabilities of these operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the year. Translation gains or losses are deferred and shown as a separate component of shareholders' equity.

Amounts per common share Amounts per common share are determined using the weighted average number of common shares outstanding during the year.

Diluted amounts per common share are determined using the treasury stock method to evaluate the dilutive effect of share options, convertible instruments and equivalents, when applicable. Under this method, instruments with a dilutive effect, basically when the average market price of the share for the period exceeds the exercise price, are considered to have been exercised at the beginning of the period and the proceeds received are considered to have been used to redeem common shares of the Company at the average market price for the period.

2. Business acquisitions and disposal

a) Acquisitions and disposal In 2001, the Company acquired two businesses in the tissue papers segment for a total consideration of $89,526,000 (US$57,169,000) and five in the packaging products segment for a total consideration of $58,026,000 (including a payment of US$29,701,000) in addition to a maximum contingent consideration of $2,389,000 (US$1,500,000) which will be paid if certain specific objectives are met.

In 2000, the Company acquired two businesses in the packaging products segment and in the tissue papers segment for a total consideration of $30,584,000. In addition, the Company disposed of its 50% interest in a saturated paper and car felt production facility for a total consideration of $3,165,000, including a balance of sale of $2,000,000.

These acquisitions have been accounted for using the purchase method and the accounts and results of operations of these entities have been included in the consolidated financial statements since their respective date of acquisition. The following allocation of the purchase prices to the identifiable assets acquired and liabilities assumed resulted in goodwill of $4,607,000 (2000 – $12,932,000).

	2001	2000
Current assets	59	38
Long-term assets	115	26
Goodwill	5	13
	179	77
Bank advances	–	(7)
Current liabilities	(27)	(25)
Long-term debt	–	(11)
Other liabilities	(4)	(6)
	(31)	(49)
Total consideration	148	28

b) Privatization of certain subsidiaries of the Company On December 31, 2000, the Company acquired the shares held by non-controlling shareholders in its subsidiaries Paperboard Industries International Inc. (excluding preferred shareholders), Perkins Papers Ltd. and Rolland Inc. in exchange for 13,998,453 common shares of the Company. The fair value of $6.85 attributed to the shares issued represents the quoted market value of the Company's shares at the date of the transaction.

Certain shareholders of these subsidiaries have used their dissenting right and asked to be paid the fair market value of their shares in cash as at December 31, 2000. A provision of $4,500,000 has been recorded in the consolidated financial statements as at December 31, 2000 to cover the fair market value of these shares as estimated by the Company. If a dissenting shareholder refuses the Company's offer, the Company or the shareholder may apply to the court to fix the fair value of the shares. In 2001, an amount of $168,000 was paid in order to buy back shares of different dissenting shareholders.

The excess of $20,000,000 of the net book value of the non-controlling interests over their purchase price has been recorded, under the purchase method, as a decrease of $30,000,000 in property, plant and equipment and a decrease of $10,000,000 in future income tax liabilities.

The Company also agreed with the holders of the Class B preferred shares of a subsidiary that, upon the exercise of their conversion rights into common shares, these shares will be exchanged for a total of 872,727 common shares of the Company. As a result, the Class B preferred shares of this subsidiary are shown in shareholders' equity of the Company in the amount of $5,978,000, which represents the fair value as at December 31, 2000 of the common shares of the Company which would be issued upon exercising the exchange rights. The excess of $11,741,000 of the net book value of the preferred shares over their fair value has been recorded, under the purchase method, as a decrease of $17,534,000 in property, plant and equipment and a decrease of $5,793,000 in future income tax liabilities.

December 31, 2001 and 2000
(tabular amounts in millions of $)

3. Inventories

	2001	2000
Finished goods	238	245
Raw materials	89	78
Supplies	111	95
	438	418

4. Property, plant and equipment

	2001			2000		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Lands	50	–	50	45	–	45
Buildings	388	100	288	339	89	250
Machinery and equipment	1,858	764	1,094	1,710	681	1,029
Automotive equipment	45	32	13	44	29	15
Other	41	5	36	43	6	37
	2,382	901	1,481	2,181	805	1,376

Property, plant and equipment include assets under capital leases with a cost of $34,490,000 and accumulated amortization of $17,130,000 as at December 31, 2001 (2000 – $26,177,000 and $16,392,000 respectively). Other property, plant and equipment include, among others, machinery and equipment in the process of installation with a net book value of $20,161,000 (2000 – $25,901,000), deposits on purchase of property, plant and equipment amounting to $2,202,000 (2000 – $4,480,000) and unused properties, machinery and equipment with a net book value of $7,287,000 (2000 – $2,584,000) which does not exceed their estimated net realizable value.

5. Other assets

	Note	2001	2000
Investments in significantly influenced companies		141	99
Other investments		4	10
Goodwill		68	74
Deferred charges		27	35
Employee future benefits	12 b)	52	49
Deferred foreign exchange loss		21	10
		313	277

(tabular amounts in millions of $)

6. Long-term debt

With recourse The following debts have or may have recourse rights against certain assets of Cascades Inc. or its general credit. These debts include restrictive and financial covenants.

	Note	2001	2000
Revolving credit facility, variable interest rate of 3.77% as at December 31, 2001	6 a)	172	164
Loan of a nominal amount of US$18,588,000 (2000 – US$20,695,000), fixed interest rate of 7.94%, payable through 2008		30	31
Redeemable preferred shares	6 d)	61	–
Other debts		24	11
		287	206
Less: Current portion		19	5
		268	201

Without recourse The following debts of subsidiaries and joint ventures of the Company do not have any recourse against the assets or general credit of Cascades Inc. These debts without recourse consist of certain collaterals from the subsidiaries and include restrictive and financial covenants.

	Note	2001	2000
Revolving credit facilities, weighted average variable rate of 4.25%	6 b)	313	289
Acquisition credit facility, weighted average variable rate of 4.57%	6 c)	38	57
Redeemable preferred shares	6 d)	–	70
8.375% Senior Notes, maturing in 2007	6 e), h)	199	188
9.50% and 9.375% Senior Notes, maturing in 2008	6 e), h)	170	163
Loans, weighted average variable rate of 5.29%, payable through 2011		57	85
Loans, weighted average fixed rate of 5.52%, payable through 2017		9	9
Capital lease obligations	6 h), j)	24	21
Other debts		6	8
		816	890
Less: Current portion		41	46
		775	844

a) The Company has a credit facility for an authorized amount of $225,000,000 which converts, after a revolving period of two years and unless a renewal is agreed to annually, into a term loan repayable over a period of three years. For the purpose of the repayments disclosed in note 6 i), it is assumed that the revolving period will be renewed in the future.

b) The subsidiaries and joint ventures of the Company have available revolving credit facilities for an authorized amount totalling CA$327,375,000 and US$130,000,000. These credit facilities mature as follows: CA$215,500,000 in 2003, US$30,000,000 in 2005, CA$111,875,000 declining during the period from 2002 to 2004 until complete extinguishment and US$100,000,000 declining during the period from 2003 to 2005.

c) A subsidiary of the Company has an acquisition credit facility of a maximum of $38,214,000 (2000 – $57,087,000) available by way of term loans on a declining, non-revolving basis. The available credit is reduced quarterly by $2,355,000 starting in December 2001 until June 2003, the balance being payable in September 2003.

(tabular amounts in millions of $)

d) The redeemable preferred shares include 2,399,873 Class A preferred shares of a subsidiary, of which 101,046 shares are held by the Company. These shares provide for a cumulative quarterly dividend of 1.25% of their accrued redemption amount of $60,759,000, of which $3,289,000 represents the dividends accrued for the first three years following their issuance and payable upon redemption. During the year, the Company renegotiated the redemption terms of these preferred shares over a period of 6 years starting November 30, 2001. The accrued dividends are payable over a period of 3 years starting November 30, 2001. These payments are considered in note 6 i).

e) These unsecured Senior Notes are repayable prior to maturity at the option of the subsidiary and the joint venture, in whole or in part and under certain conditions, subject to payment of a redemption premium.

f) As at December 31, 2001, the long-term debt included amounts denominated in foreign currencies of US$232,067,000 and euro76,280,000.

g) As at December 31, 2001, accounts receivable and inventories, totalling approximately $698,533,000, as well as property, plant and equipment totalling approximately $568,401,000, are being pledged as collateral for bank loans and advances and long-term debt.

h) The fair value of the Senior Notes and the capital lease obligations was estimated at $389,569,000 as at December 31, 2001 based on the market value for the Senior Notes and on discounted future cash flows using interest rates available for issues with similar terms and average maturities.

i) The estimated aggregate amount of repayments on long-term debt, excluding capital lease obligations, in each of the next five years is as follows:

Years ending December 31,	2002	53
	2003	181
	2004	83
	2005	31
	2006	43

j) As at December 31, 2001, future minimum payments under capital lease obligations are as follows:

Years ending December 31,	2002	8
	2003	7
	2004	6
	2005	1
	2006	1
	Thereafter	4
		27
Less: Interest (average weighted rate of 4.70%)		3
		24
Less: Current portion		7
		17

k) As at December 31, 2001, the Company and its subsidiaries and joint ventures had unused lines of credit on short-term and long-term credit facilities of $82,068,000 and $296,716,000 respectively.

(tabular amounts in millions of $)

7. Other liabilities

	Note	2001	2000
Employee future benefits	12 b)	66	63
Future income taxes	10 b)	124	122
Non-controlling interests		18	31
		208	216

8. Capital stock

	Note	2001	2000
80,987,466 common shares (2000 – 80,900,663)	8 a)	254	254
4,300,000 preferred shares of a subsidiary	8 b)	6	6
		260	260

a) The authorized capital stock of the Company consists of an unlimited number of common shares, without nominal value. As at December 31, 2000, the Company issued 13,998,453 common shares as part of the privatization of subsidiaries described in note 2 b).

b) The 4,300,000 Class B preferred shares of a subsidiary are convertible into common shares of the subsidiary, which will be exchanged, in accordance with an agreement with the holders, into a total of 872,727 common shares of the Company. These preferred shares provide for a cumulative quarterly dividend of 0.25% of their redemption price. These shares are redeemable by the subsidiary at any time at a price of $25 per share.

c) Under the terms of a share option plan adopted on December 15, 1998 for officers and key employees of the Company, 7,365,021 common shares have been specifically reserved for issuance. Each option will expire at a date not to exceed ten years following the date the option was granted. The exercise price of an option shall not be lower than the market value of the share at the date of grant, determined as the average of the closing price of the share on the Toronto Stock Exchange on the five trading days preceding the date of grant. The terms for exercising the options are 25% of the number of shares under option within twelve months after the date of grant, and up to an additional 25% each twelve months after the first, second and third anniversary dates of grant. The options cannot be exercised if the market value of the share is lower than its book value at the date of grant. No compensation cost is recognized when the options are granted to employees. Any consideration paid by employees on exercise of options is credited to capital stock.

In 2000, as part of the privatization described in note 2 b), the Company granted to officers and key employees of its subsidiaries 713,298 options to buy common shares of the Company, in exchange for the cancellation of the share options of the subsidiaries owned by these employees. The terms of the new options are the same as of the former options, except for the exercise price and the number of shares, which have been adjusted based on the exchange ratio used for the privatization.

(tabular amounts in millions of $)

Changes in the number of options outstanding are as follows:

	2001		2000	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Beginning of year	1,166,337	7.64	453,039	8.24
Granted	532,310	6.82	713,298	7.27
Exercised	(86,803)	3.43	–	–
Cancelled	(119,192)	9.59	–	–
End of year	1,492,652	7.44	1,166,337	7.64
Options exercisable – End of year	840,313	7.34	444,423	6.26

The following options were outstanding as at December 31, 2001:

	Options outstanding		Options exercisable		
Year granted	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Expiration
		$		$	
1995	56,744	6.55	56,744	6.55	2002
1996	178,168	5.52	178,168	5.52	2003 to 2006
1999	532,417	8.66	370,873	8.38	2009
2000	193,013	7.80	101,450	7.81	2010
2001	532,310	6.82	133,078	6.82	2011
	1,492,652		840,313		

9. Unusual items

	Note	2001	2000
Gain on dilution and disposal of an investment	9 a)	30	–
Gain on expropriation of lands		4	–
Gain on business disposal	9 b)	2	8
Other expenses	9 c)	(29)	(7)
Expenses related to business closure	9 d)	–	(2)
		7	(1)

a) In 2001, Boralex Inc., a significantly influenced company, concluded two issuances of 4,000,000 common shares each, resulting in a dilution of the Company's interest. In addition, during the year, the Company disposed of 2,000,000 shares of this entity for a consideration of $11,000,000. These transactions resulted in a gain of $30,577,000.

b) In 1999, the Company disposed of its interest of 50% in a fluff pulp mill located in France. The sale price included a contingent consideration of a maximum amount of $10,000,000 based on the profitability of the mill. Accordingly, the Company realized a gain of $1,762,000 in 2001 and $8,238,000 in 2000.

c) Other expenses included provisions for impairment in value of certain long-term assets.

d) In 2000, the Company definitively closed its plastic facility located in Cabano, Québec, incurring costs of $2,205,000.

December 31, 2001 and 2000
(tabular amounts in millions of $)

10. Income taxes

a) The effective income tax rate differs from the basic rate for the following reasons:

	2001	2000
	%	%
Combined basic Canadian and Québec income tax rate	45.6	45.6
Increase (decrease) in rate arising from the following:		
Deduction for manufacturing and processing and income from active business carried on in Québec	(11.0)	(9.7)
Difference in foreign operations statutory income tax rate	(1.7)	(0.7)
Unrecognized tax benefit arising from current losses of subsidiaries	2.4	4.2
Recognized tax benefit arising from previously incurred losses of subsidiaries	(3.6)	–
Permanent differences	1.5	2.5
Large corporations tax	1.5	2.7
Decrease in future income taxes resulting from a reduction in tax rates	(3.3)	(3.1)
Other	(2.2)	(1.2)
	(16.4)	(5.3)
Effective income tax rate for the year	29.2	40.3

b) Future income taxes include the following items:

	2001	2000
Future income tax assets		
Tax benefit arising from income tax losses	72	62
Employee future benefits	15	16
Unused tax credits	9	11
Other	13	9
Unrecorded future income tax asset	(22)	(29)
	87	69
Future income tax liabilities		
Property, plant and equipment	176	163
Employee future benefits	14	14
Other assets	15	11
Other	6	3
	211	191
Future income taxes	124	122

c) Certain subsidiaries have accumulated losses for income tax purposes amounting to approximately $202,576,000 which may be carried forward to reduce taxable income in future years. The future tax benefit resulting from the deferral of $142,702,000 of these losses has been recognized in the accounts as a future income tax asset. These unused losses for income tax purposes may be claimed in years ending no later than 2002 to 2021 for an amount of $146,223,000 and indefinitely for an amount of $56,353,000.

11. Change in non-cash working capital components

	2001	2000
Accounts receivable	74	(26)
Inventories	7	(54)
Accounts payable and accrued liabilities	(16)	35
	65	(45)

(tabular amounts in millions of $)

12. Employee future benefits

a) The expense for employee future defined benefits as at December 31 is as follows:

	2001		2000	
	Pension plans	Other plans	Pension plans	Other plans
Current service cost	10	2	10	2
Interest cost on obligation	27	3	24	3
Expected return on plan assets	(32)	–	(29)	–
Expense for the year	5	5	5	5

The expense recorded in 2001 for defined contribution plans (excluding group RRSPs) amounts to $923,000 (2000 – $539,000).

b) The funded status of the defined benefit plans and the other complementary retirement benefit plans and post-employment benefit plans are as follows as at December 31:

	2001		2000	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation				
Obligation – Beginning of year	381	52	346	49
Current service cost	16	2	15	2
Interest cost	27	3	24	3
Actuarial losses	4	1	–	–
Benefit payments	(20)	(3)	(16)	(2)
Business acquisitions	6	1	12	–
Obligation – End of year	414	56	381	52
Plan assets				
Fair value – Beginning of year	433	–	384	–
Actual return on assets	1	–	42	–
Contributions by the Company	10	–	8	–
Contributions by employees	5	–	5	–
Benefit payments	(20)	–	(16)	–
Business acquisitions	6	–	10	–
Fair value – End of year	435	–	433	–
Reconciliation of funded status				
Surplus (deficit) – End of year	21	(56)	52	(52)
Unamortized net actuarial loss (gain)	22	–	(14)	–
Unamortized transitional obligation	(2)	–	–	–
Unamortized past service costs	1	–	–	–
Net amount recognized	42	(56)	38	(52)

(tabular amounts in millions of $)

The net amount recognized as at December 31 is detailed as follows:

	2001			2000
	Pension plans	Other plans	Total	Total
Employee future benefit asset	52	–	52	49
Employee future benefit liability	(10)	(56)	(66)	(63)
	42	(56)	(14)	(14)

c) The following amounts relate to plans that are not fully funded as at December 31:

	2001		2000	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation	(178)	(56)	(41)	(52)
Fair value of plan assets	157	–	30	–
Funded status (deficit)	(21)	(56)	(11)	(52)

d) The main actuarial assumptions adopted in measuring the accrued benefit obligations and expenses as at December 31, 2001 are as follows:

	Pension plans	Other plans
Discount rate	6.6% to 7.0%	6.6% to 6.75%
Expected long-term rate of return on plan assets	7.0% to 8.0%	–
Salary escalation rate	2.0% to 4.5%	3.0% to 4.0%
Rate increase in health care cost		
2000	–	8.0% to 13.0%
Ultimately	–	4.7% to 8.0%

The discount rate used by most subsidiaries and joint ventures of the Company for the valuation of the pension plans and other plans is 6.75%.

13. Commitments

Future minimum payments under operating leases for the next years are as follows:

Years ending December 31,	2002	28
	2003	25
	2004	19
	2005	15
	2006	13
	Thereafter	22

(tabular amounts in millions of $)

14. Financial instruments

The Company and some of its subsidiaries utilize a variety of derivative financial instruments to limit their exposure to foreign currency fluctuations and changing interest rates but do not hold or issue such financial instruments for trading purposes.

Currency risks The Company is exposed to currency risks as a result of its export of goods produced in Canada, the United States, France, Germany, Sweden, England and Mexico. These risks are partially covered by purchases, debt service and forward exchange contracts.

Some of the Company's Canadian entities entered into contracts to sell forward U.S. dollars in exchange for Canadian dollars. As at December 31, 2001, these subsidiaries and joint ventures held forward exchange contracts with a notional amount of $116,872,000 (2000 – $179,274,000) representing an unrealized loss of $3,085,000 (2000 – unrealized loss of $782,000).

The European subsidiaries entered into forward exchange contracts which mature in less than a year to hedge their currency risks resulting from sales and purchases in European currencies and U.S. and Canadian dollars. As at December 31, 2001, these contracts had an unrealized loss of $454,000 (2000 – unrealized gain of $1,553,000) on a notional amount of $39,635,000 (2000 – $40,042,000).

Interest rate risks As at December 31, 2001, approximately 50% (2000 – 50%) of the Company's long-term debt was at variable rates. Interest rate swaps have been contracted to fix interest at a weighted average rate of 6.94% on a notional amount of $50,200,000 (2000 – $50,200,000). These instruments, which represent an unrealized loss of $2,450,000 as at December 31, 2001 (2000 – unrealized loss of $340,000), expire in 2003 and 2004.

Credit risks There is no particular concentration of credit risks due to the North American and European distribution of customers and the procedures for the management of commercial risks. Derivative financial instruments include an element of credit risk should the counterparty be unable to meet its obligations. The Company reduces this risk by dealing with creditworthy financial institutions.

15. Interests in joint ventures

The major components of interests in joint ventures in the consolidated financial statements are as follows:

	2001	2000
Consolidated balance sheets		
Current assets	176	183
Long-term assets	436	361
Current liabilities	109	83
Long-term debt	199	190
Consolidated statements of earnings		
Sales	653	632
Operating income	92	110
Financial expenses	18	20
Net earnings	44	60
Consolidated statements of cash flows		
Operating activities	92	116
Investing activities	(96)	(58)
Financing activities	11	(39)

Historical Financial Information 1992 – 2001

(unaudited) For the years ended December 31 (in millions of $, except per share amounts and ratios)	2001	2000	1999	1998
Highlights – Consolidated Results				
Net sales	3,023	2,866	2,615	2,527
Cost of sales and expenses	2,643	2,527	2,306	2,211
Earnings before interest, taxes, depreciation and amortization (EBITDA)	380	339	309	316
Amortization	132	125	117	113
Operating income	248	214	192	203
Financial expenses	89	91	86	91
	159	123	106	112
Unusual items	7	(1)	(3)	(15)
	166	122	103	97
Provision for income taxes	49	49	42	44
	117	73	61	53
Share of results of significantly influenced companies	3	5	5	1
Non-controlling interests	–	(3)	(8)	(9)
Net earnings (loss)	120	75	58	45
Net earnings (loss) per common share	$ 1.47	$ 1.12	$ 0.86	$ 0.67
Highlights – Consolidated Cash Flow				
Cash flow from operations	249	214	192	185
per common share	$ 3.06	$ 3.20	$ 2.87	$ 2.77
Purchase of property, plant & equipment	122	148	128	227
Business acquisitions	148	31	13	51
Business disposals	–	1	17	1
Net change in long-term debt	(29)	30	(40)	83
Dividends on common shares	10	7	7	7
per common share	$ 0.12	$ 0.11	$ 0.10	$ 0.10
Dividend yield	1.2%	1.6%	1.1%	1.3%
Highlights – Consolidated Balance Sheet (as at December 31)				
Working capital	348	384	353	364
Property, plant & equipment	1,481	1,376	1,355	1,400
Total assets	2,754	2,637	2,436	2,485
Total long-term debt	1,103	1,096	1,044	1,158
Non-controlling interests	18	31	185	196
Shareholder's equity	891	776	649	618
per common share	$ 11.01	$ 9.60	$ 9.70	$ 9.24
Stock Market Highlights				
Shares issued and outstanding (in millions)	81.0	80.9	66.9	66.9
Trading volume (in millions)	31.6	13.9	8.9	13.1
Market capitalization	843	554	589	522
Closing price (as at December 31)	$ 10.41	$ 6.85	$ 8.80	$ 7.80
High	$ 10.44	$ 10.50	$ 10.25	$ 11.30
Low	$ 6.41	$ 6.05	$ 7.50	$ 6.80
Key Financial Ratios				
Return on equity	14%	11%	9%	8%
EBITDA / net sales	13%	12%	12%	13%
EBITDA / financial expenses	4.3x	3.7x	3.6x	3.4x
Net funded debt / EBITDA	3.1x	3.5x	3.6x	3.7x
Net sales / total capitalization	1.3x	1.3x	1.3x	1.2x
Net funded debt / total capitalization	51%	53%	54%	56%
Price to earnings	7.1x	6.1x	10.2x	11.6x
Price to book value	0.9x	0.7x	0.9x	0.8x
Price to cash flow	2.2x	2.1x	3.1x	2.8x

Historical Financial Information 1992–2001

1997	1996	1995	1994	1993	1992
					(not restated)
2,109	2,012	2,184	1,643	1,590	857
1,860	1,726	1,879	1,469	1,452	784
249	286	305	174	138	73
94	86	78	66	76	38
155	200	227	108	62	35
60	67	71	62	81	37
95	133	156	46	(19)	(2)
4	32	21	10	(80)	28
99	165	177	56	(99)	26
32	57	38	18	17	2
67	108	139	38	(116)	24
1	(1)	–	–	–	1
(9)	(22)	(26)	(4)	57	3
59	85	113	34	(59)	28
$ 0.85	$ 1.37	$ 1.84	$ 0.45	$ (1.21)	$ 0.49
162	197	209	101	37	37
$ 2.45	$ 3.28	$ 3.45	$ 1.61	$ 0.54	$ 0.65
153	118	114	73	62	76
99	–	31	6	12	242
–	84	–	13	212	–
188	(17)	(12)	(12)	(204)	(54)
6	6	–	–	–	–
$ 0.10	$ 0.10	–	–	–	–
1.0%	1.3%	–	–	–	–
339	218	206	141	242	137
1,314	1,114	1,145	944	888	1,057
2,323	1,874	1,930	1,629	1,453	1,713
1,076	690	716	561	515	676
208	178	192	137	119	191
563	591	525	418	460	430
$ 8.47	$ 8.26	$ 7.02	$ 5.13	$ 4.48	$ 5.70
66.4	56.4	57.6	57.8	57.8	54.7
32.8	33.2	18.6	30.1	18.3	13.6
681	434	411	426	397	363
$ 10.25	$ 7.70	$ 7.13	$ 7.37	$ 6.87	$ 6.63
$ 11.50	$ 8.20	$ 8.12	$ 8.87	$ 7.25	$ 8.63
$ 6.45	$ 5.50	$ 6.50	$ 6.37	$ 5.00	$ 5.13
10%	15%	24%	9%	(15)%	8%
12%	14%	14%	11%	9%	9%
4.2x	4.3x	4.3x	2.8x	1.7x	2.0x
4.3x	2.4x	2.6x	3.5x	3.8x	10.2x
1.1x	1.3x	1.3x	1.2x	1.3x	1.1x
54%	43%	49%	46%	43%	51%
12.1x	5.6x	3.9x	16.4x	n/a	13.5x
1.2x	0.9x	1.0x	1.4x	1.5x	1.2x
4.2x	2.3x	2.1x	4.6x	12.7x	10.2x

Cascades Worldwide

Canada
Calgary, Alberta
Edmonton, Alberta
Burnaby, British Columbia
Castlegar, British Columbia
Coquitlam, British Columbia
Richmond, British Columbia
Vancouver, British Columbia
Winnipeg, Manitoba
Moncton, New Brunswick
St. John's, Newfoundland
Dartmouth, Nova Scotia
Saskatoon, Saskatchewan

Ontario
Barrie
Belleville
Brampton
Brantford
Cobourg
Concord
Etobicoke
Kitchener
London
Mississauga
North York
Ottawa
Peterborough
Pickering
Red Rock
Sault Ste. Marie
Scarborough
St. Mary's
Sudbury
Thunder Bay
Toronto
Trenton
Vaughan

Québec
Berthierville
Breakeyville
Cabano
Candiac
Cap-de-la-Madeleine
Drummondville
East Angus
Hull
Jonquière
Kingsey Falls
Lachute
Laval
Louiseville
Montréal
Notre-Dame-du-Bon-Conseil
Québec City
Sherbrooke
St-Jérôme
Vaudreuil
Victoriaville

United States
Birmingham, Alabama
Hebron, Kentucky
Auburn, Maine
Leominster, Massachussetts
Thorndike, Massachussetts
Warrenton, Missouri
Buffalo, New York
Maspeth, New York
Monticello, New York
Niagara Falls, New York
Rockingham, North Carolina
Pittston, Pennsylvania
Ransom, Pennsylvania
Brownsville, Tennessee
Dallas/Forth Worth, Texas
Richmond, Virginia
Tacoma, Washington
Eau Claire, Wisconsin

Mexico
Monterrey

Europe
Wednesbury, England
Blendecques, France
Boissy-le-Chatel, France
Châtenois, France
La Rochette, France
Paris, France
Saulcy-sur-Meurthe, France
Arnsberg, Germany
Ronneby, Sweden

International Sales
Hong Kong, China
Prague, Czech Republic
Wednesbury, England
Paris, France
Krefeld, Germany
Budapest, Hungary
Milan, Italy
Warsow, Poland

□ *Head Office*
● *Plants, mills and distribution centres*
△ *International sales*

Officers and General Information

Officers

Bernard Lemaire
Chairman of the Board

Laurent Lemaire
President and
Chief Executive Officer

Alain Lemaire
Executive Vice-President

Robert F. Hall
Vice-President, Legal Affairs
and Corporate Secretary

André Belzile
Vice-President and
Chief Financial Officer

Alain Ducharme
Corporate Vice-President

Norman Boisvert
Vice-President,
Administration

Claude Cossette
Vice-President,
Human Resources

Jean-Luc Bellemare
Vice-President,
Information Technologies

Rina P. McGuire
Vice-President,
Corporate Culture
and Public Relations

Jacques Mallette
President and
Chief Executive Officer
Boxboard Group

Suzanne Blanchet
President and
Chief Executive Officer
Tissue Group

Martin P. Pelletier
President and
Chief Executive Officer
Fine Papers Group

Mario Plourde
President and Chief
Operating Officer
Specialty Products Group

Investor Relations

For more information,
please contact:
Director, Investor Relations
Cascades Inc.
772 Sherbrooke Street West
Montréal, Québec
H3A 1G1
Telephone: (514) 282-2681
Facsimile: (514) 282-2624
investisseur@cascades.com

General Information

The Annual General Meeting of Shareholders will be held on April 30, 2002 at 2:00 p.m. at the Omni Mont-Royal Hotel, Seasons A & B Rooms, 1050 Sherbrooke Street West, Montréal, Québec.

The 2001 Annual Information Form of Cascades Inc. will be available upon request from the Company's head office as of May 21, 2002.

This annual report is available in both French and English.

On peut se procurer la version française du présent rapport en s'adressant au :
Secrétaire corporatif
Cascades inc.
404, boul. Marie-Victorin
C.P. 30
Kingsey Falls (Québec)
Canada J0A 1B0

Transfer agent and registrar:
Computershare Trust Company
of Canada Inc.

Head Office

Cascades Inc.
404 Marie-Victorin Blvd.
P.O. Box 30
Kingsey Falls, Québec
J0A 1B0
Telephone: (819) 363-5100
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info@cascades.com
www.cascades.com

Directors

Board of Directors

Bernard Lemaire [1]
Chairman of the Board
Cascades Inc.
Chairman of the Board
and Chief Executive Officer
Boralex Inc.

Laurent Lemaire [1]
President and Chief
Executive Officer
Cascades Inc.

Alain Lemaire [1]
Executive Vice-President
Cascades Inc.
President and Chief
Executive Officer
Norampac Inc.

Norman Boisvert [1 2 3]
Vice-President, Administration
Cascades Inc.

Martin P. Pelletier [4]
President and Chief
Executive Officer
Fine Papers Group

Paul R. Bannerman
Chairman of the Board
Etcan International Inc.

Jacques Aubert [4]
Chairman of the Board and
Chief Executive Officer
Junex Inc.

Simon L'Heureux [2 3]
Director of companies

André Desaulniers [2]
Director of companies

Paul Pelletier [4]
Consultant

Louis Garneau [3]
President
Louis Garneau Sports Inc.

Sylvie Lemaire
President
Fempro Inc.

Michel Desbiens [3]
Consultant

Laurent Verreault
President and Chief
Executive Officer
Société Groupe Laperrière
& Verreault Inc.

1 *Member of the Executive Committee*
2 *Member of the Audit Committee*
3 *Member of the Remuneration Committee*
4 *Member of the Environmental Committee*

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Members of the Board of Directors:
Jacques Aubert, André Desaulniers, Sylvie Lemaire, Laurent Verreault, Laurent Lemaire, Paul R. Bannerman, Bernard Lemaire, Martin P. Pelletier, Alain Lemaire, Norman Boisvert, Michel Desbiens, Paul Pelletier, Louis Garneau and Simon L'Heureux.

Text: André Dupras
Translation: Andrea Johnston
Photoengraving and printing: Quebecor World Graphique Couleurs
Photography: Monic Richard, Pierre Manning, Christian Martin
Cover paper: Rolland Vellum Bristol, Bright White, 80 lb
Interior papers: Rolland Opaque, Vellum, Bright White, 80 lb/Rolland Motif Text, Lines, Pure White, 80 lb
Printed in Canada

Nolin Branding & Design

www.cascades.com